# Car Leasing Guide

An Essential Guide to Leasing Cars

This guide is written for automotive consumers who are interested in leasing a new car, or making a decision about whether to lease or buy. It's easy to read and understand.

**LeaseGuide.com**

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# Introduction to Car Leasing

**The Concept of Car Leasing**

The concept of leasing is fairly simple, yet many automotive consumers don't completely understand it and are often skeptical, even afraid of it. It is frequently misunderstood as a kind of "rent-to-own" scheme hatched up by clever dealers to separate good people from their money.

There are well-meaning but misinformed "experts" who are quick to advise against leasing because "it's all a scam" or "it's the same as renting and you throw your money away" or "it's only good for businesses."

In fact, leasing is a common financial concept that has been used in the business world for decades as a method of financing buildings, equipment, and vehicles. However consumer automobile leasing has only been generally available for about 30 years.

Car leasing is not the same as renting, as many people mistakenly believe. It's simply a form of auto financing, although a bit more complicated than buying a car with a loan.

If you understand how it works, you'll be better prepared to make intelligent decisions about leasing.

**Understand How Car Leasing Works**

As with any business transaction, the key to successful and smart auto leasing is understanding how the process works, taking the time to properly prepare yourself before making decisions, and learning to use leasing to your benefit. It's also about knowing when you should lease, and when you shouldn't.

Without at least a basic understanding of leasing concepts, knowing how to get a good deal, and knowing how payments are figured; you expose yourself to the very real possibility of making mistakes, significantly overpaying, or worse, being cheated.

Leasing is a method of financing, similar to a loan. It would be a mistake to think that consumer car leasing is like apartment leasing, apartment renting, or car renting. It is not. It's unfortunate that the same terminology is used. The differences are so significant that any attempt to try to understand one by drawing on your knowledge of the other will only result in a serious misunderstanding.

Let's make an important statement here: You shouldn't consider leasing an automobile unless you have an understanding of the fundamentals of how leasing works. Don't lease if you don't understand it, particularly if your only reason for considering leasing is that the monthly payments are lower.

## Why Leasing?

As recently as twenty years ago, many automobile consumers had never heard of leasing, much less done it. Now, approximately 32% (1 of every 3) of all new cars, trucks, SUVs, and vans are leased. Of those vehicles, luxury cars are leased at an even higher rate — 70%-75% .

After a temporary slowdown a few years ago, car leasing is again growing in consumer popularity. Just look at the volume of lease ads in your local newspaper and on TV to get a notion of how popular automobile leasing has become, especially during times of economic uncertainty when consumers are looking for more affordable ways to meet their transportation needs.

Leasing provides an alternative method of financing that offers several benefits that are attractive and beneficial to many automotive consumers. In particular, leasing offers significantly lower monthly payments than a loan, although that's not a good enough reason, by itself, to decide to lease.

## Why is Car Leasing Popular?

Two factors helped cause the shift to leasing. First, new cars prices have rapidly spiraled upwards over the last few years, often putting prices out of reach of average buyers.

Second, increased cost of housing, food, and other necessities of life have left less money in many families' monthly budget for transportation. The net effect is that people have become increasingly eager to find ways to make personal vehicles more affordable and to preserve their cash for more important purposes.

Auto manufacturers and finance companies have come to the rescue in a big way with consumer car leasing programs. These programs are simply a modified version of business leasing that have been around for decades. This helps explain much of the strange language and confusing concepts associated with consumer leasing today.

In a nutshell, leasing has become popular because it offers people a way to drive the vehicles they want — often better vehicles than they could buy — for less money and less hassle. Low monthly payments are the big attraction, although we'll soon find out why it's important to look at other factors before deciding to lease.

## Is Leasing For You?

Leasing can offer advantages but it may not fit everybody's needs and lifestyle. Furthermore, leases can be somewhat more complicated than new-car purchase loans and require greater care and preparation in order to get a good fair deal — and avoid problems. Make sure you use this *Lease Guide* to help you determine whether it's right for you, in your particular situation.

**Summary**

This *Lease Guide* will be your roadmap to successful car leasing. We'll help you understand how leasing works, how to determine if it's right for you, how to calculate monthly lease payments, how to find good deals (and avoid bad deals), and how to handle things if you are already in a lease.

# What is Car Leasing

**Leasing is a Form of Financing**

Leasing is nothing more than a method of *financing* the use of a car, truck, SUV, or van over a specified period of time. Sounds like renting, but don't get the two confused because they are very different. While you can rent a car for as little as a day, or even a few hours, leasing typically starts at 24 months and doesn't provide for easy termination or vehicle swapping.

Leasing is a long-time well-respected form of business financing for motor vehicles, construction equipment, buildings, airplanes, and ships. However, consumer leasing for automobiles only became popular in the 1980s as people began to look for more affordable ways to acquire the new cars they wanted.

**Price is Important in Leasing**

When you lease, you negotiate a purchase price with the dealer just as you would if you were buying. This key point is not well known and dealers have even told customers that, because it's a lease, lease price is always full sticker price. This is simply not true. Generally, the only time you would not need to negotiate price is when the dealer is offering a special manufacturer-sponsored deal in which the price and other factors of the lease are already set to attract your business.

If you don't like negotiating, get already-discounted price quotes online from **Edmunds.com** or **TrueCar**. A local dealer who has the car you want will contact you and confirm the price. That discounted price will be the price your lease will be based on.

Once you and the dealer agree on a price, and you've signed the lease contract, the dealer actually sells the car to the leasing company at that price. The leasing company then leases the car to you, based on that price. For that reason, price becomes the most important factor in what you'll pay in monthly lease payments.

**Car Dealer is Not the Leasing Company**

A car dealer simply acts as an agent for the leasing company (usually the car maker's finance company, such as Ford Credit or Honda Financial) so that you don't deal directly with the leasing company until you start to make monthly payments. The dealer works out the terms of the leasing agreement with you on behalf of the leasing company. Once the contract is approved and you take delivery of the car, your relationship is with the leasing company, not the dealer, unless it's an issue with the vehicle itself.

So, automobile dealers are in the business of providing automobiles, but leases are provided by finance companies with whom the dealers work.

A few years ago it was possible for consumers to bypass dealers and independently arrange car leases with large banks or outside finance companies. Since the Great Recession of 2008-2010, hardly any banks still do leasing.

### The Leasing Process

You decide on the car you want and negotiate your best price with your dealer (or get a pre-arranged price or promotional lease deal). The dealer will calculate your monthly payment based on the final price and non-negotiable factors, such as finance rate and fees, that are dictated by the leasing company. You may lower your monthly payment by making a cash down payment if you choose. Your payments will also include sales tax (in most states and Canada) based on tax rates where you live.

At the time you sign your lease contract, you will be required to pay your first month's payment (lease payments are always paid at the beginning of a pay period, not the end), as well as any official tax, tag, and registration fees required in your locality. Some leases may require an up-front security deposit that you get back at lease-end.

### What it Means to Lease

Signing a car leasing contract means that you agree to make regular monthly payments, maintain your vehicle, keep appropriate auto insurance, pay local vehicle taxes and licensing fees, and take good care of the vehicle. Further, you agree that you'll keep the car for a specified number of months — typically 24, 36, or 39 months — and you're expected to stick it out to the end.

Just to be clear, when you lease a car you are responsible for all maintenance, service, insurance, tags, taxes, and local fees just as if you owned the car. Remember, leasing is not renting.

Your car will be covered by the manufacturer's new-car warranty just as if you purchased the car. If the warranty is good for 3 years, and you lease for 3 years, your car will be covered for your entire lease term. It's a good idea to not lease for a longer term than the warranty coverage period.

### At the End of a Lease

At the end of a lease you're expected to return your vehicle to the leasing company with no more than normal wear and tear. You'll have to pay for any excessive damage or extra mileage over and above your contract-specified limits. Most lease finance companies are very lenient and "forgiving" of damages such as minor dents and scratches. Customers are expected to repair major damages prior to returning a vehicle at lease-end.

You may have an option to purchase your vehicle at lease-end, for a specific guaranteed price, if you choose. You may also use the car as a trade-in on another new car purchase or lease. Otherwise, you can simply return the vehicle to the leasing company and walk away.

Making the best decision about what to do with your vehicle at lease-end — returning it to the leasing company, buying it, trading it, or extending your lease — requires that you look at each option carefully and evaluate the trade-offs. Our **Lease Kit** includes a section, *Lease-End Advisor*, that provides complete details and instructions.

**Summary**

For anyone thinking about leasing an automobile, it's very important to understand what leasing is — and what it is not — and how it works.

# Lease vs Buy Explained

**Which is Better: Leasing a Car or Buying a Car?**

The answer is — it depends. It's not possible to simply say that one is always better than the other because the answer depends on the specifics of each individual situation, which we will explain further.

Leasing a car is a great option for some people, but not for others. Some will not qualify because of credit, income, or other requirements. Therefore, if you are considering leasing, it's important to know how to determine if a lease is a good option for you, or if you qualify.

**Lease vs Buy: The Basics**

First, leasing is only an option for financing brand new cars, not used cars, although leasing of used luxury cars is available from specialty car dealers in some cities.

Leases and purchase loans are simply two different methods of automobile financing. Car leasing is not renting as many people seem to think. It's not at all like apartment leasing. Although leasing is similar to renting in some respects, car leasing and car renting are completely different and should not be confused.

**Ask Yourself These Questions**

- Which is more important: Driving a new vehicle every two or three years with no major repair risks — or driving one vehicle for many years and assuming responsibility for all maintenance repairs after the first years?
- Which is more important: Lower monthly payments but higher long term cost — or lower long-term cost but higher initial monthly payments?
- Which is more important: Building ownership value and paying off your vehicle, even though it means higher monthly payments — or building no ownership value, with the benefit of significantly lower monthly payments?
- Do you drive no more than an "average" amount of miles in a year — or is your mileage highly unpredictable?
- Do you take good care of your cars and maintain them properly — or do you prefer be more lax about such things?
- Do you have a stable lifestyle such that you will not want to end your lease early — or is there a high likelihood of wanting out early?

So we find out that making a lease-or-buy decision is not quite cut-and-dry. There are trade-offs, pluses and minuses, and pros and cons to consider.

Let's look at how leasing and buying compare.

## Buying and Leasing Compared

### Lease

When you *lease*, you pay only a portion of a vehicle's total value, which is the part of the value that you "use up" during the time you're driving it.

You have a choice of not making a down payment, you pay sales tax only on your monthly payments (in most states), and you pay a financial rate, called *money factor*, that is similar to the interest on a loan. You may also be required to pay fees and possibly a security deposit that you don't pay when you buy.

You make your first payment at the time you sign your contract — for the month ahead. Your next payment is due a month later. At lease-end, you may either return the vehicle, or purchase it for the part of the value that you haven't already paid. The purchase price is stated in your contract at the time you sign.

If you decide to return your vehicle, you may be charged a lease-end disposition fee, and for any excessive mileage or wear-and-tear, the details of which are spelled out in your lease contract. Purchasing your vehicle avoids these fees.

### Buy

When you *buy*, you pay for the entire value of a vehicle, regardless of how many miles you drive it or how long you keep it. You can pay cash or get an auto finance loan.

Monthly loan payments are *always* higher for a loan than for a lease — 60%-110% higher — for the same car. You typically make a down payment of 10%-20%, pay sales tax on the full purchase price, and pay a loan interest rate determined by your loan company, based on your credit score. You make your first payment a month after you sign your contract.

Later, you may decide to sell or trade the vehicle for its depreciated resale or trade value, which may be considerably less than the vehicle's original cost. The feasibility of selling or trading before loan completion depends on your *equity* — your vehicle's current value versus your outstanding loan balance. If the loan balance is higher, you have *negative equity* — not good. Otherwise, you have *positive equity* — good.

## Lease Example

If you **lease** a $20,000 car that will have, say, an estimated resale value of $13,000 after 24 months, **you only pay for the $7000 difference** (the depreciation), plus finance charges. **This is fundamentally why leasing offers significantly lower monthly payments**. You can return the car at lease-end, or buy it for the remaining $13,000 that you haven't already paid — or trade it if the vehicle is worth more than $13,000.

### Buy Example

When you **buy** with a loan, you **pay the entire $20,000 cost**, plus finance charges. You own the car at the end of the loan, although its value is less than the $20,000 you initially paid — $7000 less. All cars suffer the same value depreciation regardless of how they are financed — purchase or lease. You have the option to sell or trade the vehicle, or continue driving it while enjoying no further monthly payments.

### How are Car Lease and Loan Payments Different?

Here's a table that compares a typical lease payment with loan payments for the same car, same price, same down payment, same interest rate, and same number of months. **Lease payments are 42% less**. An additional comparison shows that lease payments are still lower by 36% even when compared to a 0% loan interest rate.

**Lease vs Loan**
**Payment Comparison**

Typical lease payment compared to a 0% loan and 6% loan.

Do your own comparisons using our **Lease vs Buy Calculator**

| | Lease- 6% | Loan - 0% | Loan - 6% |
|---|---|---|---|
| **Car Price** | $23000 | $23000 | $23000 |
| **Down Payment** | $1000 | $1000 | $1000 |
| **Interest Rate** | 6% | 0% | 6% |
| **Residual** | $11000 | n/a | n/a |
| **Months** | 36 | 36 | 36 |
| **Payment** | **$388.06** | **$611.11** | **$669.28** |

### Lease Payments - Two Parts

Lease payments are made up of two parts: a ***depreciation charge*** and a ***finance charge***. The *depreciation* part of each monthly payment compensates the leasing company for the portion of the vehicle's value that is lost during your lease ($7000 in our example above). The *finance* part (called *money factor*) is interest on the money the lease company has tied up in the car while you're driving it. In effect, you are borrowing the money that the lease company used to buy the car from the dealer. You repay part of that money in monthly payments, and repay the remainder when you either buy or return the vehicle at lease-end.

Since you pay only for a leased car's depreciation (lost value), you have nothing to show for the money you've spent. But, as we'll see in a moment, a car *buyer* also loses the same value to depreciation.

**Loan Payments - Two Parts**

Loan payments also have two parts: a ***principal charge*** and a ***finance charge***, similar to lease payments. A finance company, credit union, or bank issues money directly to you or a dealer, and you agree to repay that money, with interest, over time. The *principal* part pays off the full vehicle purchase price ($20,000 in our example above) over the term of the loan, while the *finance* part is *interest* on the monthly unpaid balance. The finance company or bank will hold the vehicle's legal title of ownership until the loan has been completely repaid.

However, since all vehicles depreciate in value by the same amount regardless of whether they are leased or purchased, part of the *principal* portion of each loan payment can be considered as a *depreciation* charge, just like with leasing — it's part of each monthly payment that you never get back, even if you sell the vehicle in the future. It's lost money for which you'll have nothing to show, just like with leasing.

**The Part You Lose, The Part You Keep**

The other part of each loan principal payment, after depreciation, goes toward *equity value*. Equity is what remains of your car's original value at the end of the loan after depreciation has taken its toll. Equity is resale or trade value. It's what you get back if you sell the vehicle — or credit you receive if you trade. The longer you own and drive a vehicle, the less equity value you have. At some point in time, after the wheels have fallen off and the engine is worn out, the only equity left is scrap value. You never get back the full amount you paid for your vehicle.

**Savings Account or No Savings Account**

So, buying a car with a loan is essentially like putting money into a declining-value savings account — you never get out as much as you put in. A portion of every payment you make is lost to depreciation and finance charges. What you have "to show" for your investment when your loan is paid off is only the part of a vehicle's value that is left over after depreciation and interest. However, if you plan to drive the vehicle for many years to come, its equity value at the end of your loan is of little concern to you.

Leasing, then, is similar to buying but without the equity "savings account." You only pay for what you use (the depreciation) and you don't put anything extra each month into "savings." It's true that you'll own nothing at the end of a lease; you'll have nothing "to show" for the money you've put into it. But ... what you don't own is the same part of the car's original value — the depreciated part — that a buyer too doesn't own at the end of his loan. Again, a car's value depreciates the same amount whether it is leased or purchased. That money is gone forever, lease or buy.

With leasing, you may have the option of putting your monthly payment savings into more productive investments, such as mutual funds or stocks that have the possibility of increasing in value. In fact, many experts encourage this practice as one of the benefits of leasing, although most people will typically find other uses for the money they save by leasing — such as paying the mortgage or buying groceries.

### Price is important whether you lease or buy

When leasing, it's often easy to overlook the fact that vehicle price is important and should be negotiated just as it should if you were buying. In fact dealers sometimes state, or imply, that price is not important or that price cannot be negotiated in a lease. Not true. Just the opposite. **Price is the most important factor — in either a lease or a purchase — for creating a low monthly payment**.

One of the most important things to know when negotiating car prices is to **know what other people are paying** for the same car you want. Otherwise, you likely won't know what price you're negotiating for, especially if there are hidden incentives available. You can easily get this information at **TrueCar.com**, an invaluable resource for anyone buying or leasing a car.

### Leasing Can be a Little More Complicated

Because leasing is made somewhat more complicated with residuals, term, money factors, acquisition fees, etc.; it shouldn't be undertaken quite as casually as you might with a car loan. There are more opportunities to misunderstand and make mistakes. Therefore, leasing requires that you be more careful and more informed. This is precisely the reason we've provided this *Lease Guide* and our optional ***Lease Kit*** — to make leasing as easy and understandable as possible.

### Credit Score is Important

Leasing typically requires a higher credit score than buying with an auto loan.

Your score might mean the difference between leasing and buying, what you'll pay in finance charges, how much down payment you'll be asked to make, or not getting approved at all.

You actually have **3 different credit scores**, from the three major credit bureaus, Equifax, Transunion, and Experian.

**You should know all three scores** since you don't know ahead of time which will be used by your car dealer and lease company. **Check all 3 of your current credit scores now!**

### Insurance Cost Is a Consideration Too

These days, most loan and lease finance companies require you to have full insurance coverage on your car — to protect both your interests and theirs. Since auto insurance companies' rates for full coverage varies so widely, it's always a good idea to do some checking around and get quotes. **Get your free auto insurance quote from Esurance in minutes & start saving today!**

### Leases are More Difficult to Evaluate

It's easy enough to evaluate a car purchase based simply on price. You can use a free service such as **TrueCar** to compare the price you are being offered to what other people are paying for the same car.

However, evaluating a lease is more difficult because payments are based on a combination of factors, of which price is only one. There's also residual value, term, and money factor. To help you, we've developed an easy-to-use free online **Lease Deal Calculator** that does the job for you.

### One Other Thing - GAP Protection

Most car leases have automatic built-in GAP coverage, while car purchase loans do not. GAP coverage, or GAP insurance, pays the difference between what you owe on your loan or lease, and what your vehicle is actually worth if your vehicle is stolen or destroyed in an accident.

Why is GAP insurance important? Because it's very common, in these days of long-term loans and leases, rolled-over and refinanced loans, and little or no down payment, to be "upside down" — to owe more on your loan or lease than your car is actually worth.

This can mean you'll still owe hundreds or thousands of dollars to the finance company even after your insurance has paid for your car that has been totaled or stolen. This turns out to be a huge shocking surprise for most people caught in this unfortunate situation.

So, nearly all leases have built-in GAP protection, but loans do not. You're better protected with a lease, unless you purchase the insurance separately at extra cost for the loan — if you can find a place to buy it.

### So Which is Better - Buying or Leasing ?

As with any question of this type, there can be more than one answer, depending on particulars.

Let's simplify the answers and summarize them here:

**1.** The **SHORT-TERM** monthly cost of leasing is ALWAYS SIGNIFICANTLY LESS than the cost of buying. For the same car, same price, same term, and same down payment, monthly lease payments will always be 30%-60% lower than loan payments. This is still true even when compared to 0% or low-interest loans (see comparison chart above). For your own real-life comparisons, use our **Lease vs. Buy Calculator**.

**2.** The **MEDIUM-TERM** cost of leasing is ABOUT THE SAME as the cost of buying, assuming the buyer sells/trades his vehicle at loan-end and the leaser returns her vehicle at lease-end. The overall cost of leasing compared to buying, over the same lease/loan term, is approximately the same, assuming the buyer sells or trades the vehicle at the end of the loan. Comparisons sometimes show buying to cost a little less than leasing due to fewer fees, lower total finance costs, and the assumption that a purchased vehicle will return full market value if it is sold or traded at the end of the loan (often a bad assumption, especially if traded). However, when the benefits of wisely investing monthly lease savings are considered, along with sales tax savings (in most states), the net cost of leasing can easily be a bit less than buying. For more details see our article, **Lease vs Buy - The Real Math**.

**3.** The **LONG-TERM** cost of leasing is ALWAYS MORE than the cost of buying, assuming the buyer keeps his vehicle after loan-end. If a buyer keeps his car after the loan has been paid off and drives it for many more years, the cost is spread over a longer term. It doesn't take rocket science to figure out that the cost of buying one car and driving it for ten years is less expensive than leasing or buying four or five different cars over the same period. Therefore, leasing is always more expensive than long-term buying. If long-term financial cost savings were the most important objective in acquiring a new car, it would always be best to buy the car and drive it for as long as it survives — or until the cost of maintenance and repairs begins to exceed the cost of replacing it. However, many automotive consumers have other more short-term objectives that are more important than long-term cost savings.

### Lease or Buy? What's Important to You? What Are Your Priorities?

It's personal. All of us have different personal styles, objectives, and priorities — in cars, life, and in finances. Car lease-versus-buy decisions must be made with your own lifestyle and priorities in mind. What's right for one person can be totally wrong for another.

**LEASE** - If you enjoy driving a new car every two or three years, want lower monthly payments, like having a car that has the latest safety features and is always under warranty, don't like trading or selling used cars, don't care about building ownership equity, have a stable predictable lifestyle, drive an average number of miles, properly maintain your cars, are willing to pay more over the long haul to get these benefits, and understand how leasing works, then you should LEASE.

**BUY** - If you don't mind higher monthly payments at first, like owning your cars for more than 2-3 years, prefer to build up some trade-in or resale value (equity), enjoy the idea of having ownership of your car, like paying off your loan and being payment-free for a while, don't mind the unexpected cost of repairs after warranty has expired, drive more than average miles, prefer to drive your cars for years to spread out the cost, like to customize your cars, or you might have lifestyle or job changes in the near future — then you should BUY.

### Another Way to Lease — A Better Cheaper Leasing Alternative

The single best way to drive a late-model car at the lowest possible cost is to take over someone's existing car lease. It's less expensive than buying and less expensive than taking out a new lease. You avoid all the up-front hassles, negotiations, and fees.

Why?

Most existing car leases were taken out months ago when car manufacturers were offering incredible money-losing lease deals and very low monthly payments. Many people who took those great lease deals now need to get out after losing a job or suffering other financial distress. Most lease companies allow those leases to be transferred to someone else by simply paying a small transfer fee.

Since the original lessee got a good deal — a deal that may not be possible today — anyone taking over the lease will inherit the same great deal, same low monthly payment, with no money down, no up-front sales tax, and in many cases, a cash incentive from the "seller." There is no other way to get a late-model car this cheap with payments this low.

Online companies such as **Swapalease** act as match-makers between people who want out of a lease, and people who would like to take over a lease. This company is the largest online lease marketplace and has the largest inventory of lease takeover vehicles. You can look over their vehicle listings and if you find a car you like, they help arrange the lease transfer. The "seller" pays most of the cost. It's easy and fast.

### Summary

To summarize, car leasing is the right answer for people who want to save on monthly automobile costs but who have a stable predictable lifestyle and take good care of their cars. Buying is better for those who drive lots of miles, who like paying off their auto loan and enjoying their car without monthly payments for years to come.

Remember, whether you lease or buy, or take over an existing loan, your current credit score can make the difference between a good deal or bad deal, or no deal at all. Always know your 3 credit scores (yes, you have three different scores from the three major credit bureaus). **Check all 3 of your current credit scores now!** Don't be surprised by what a dealer knows about you that you don't know about yourself.

# Car Leasing Benefits

**What Are the Pros and Cons of Leasing a Car?**

Car leasing can offer advantages and be an attractive alternative to buying, although it's not for everyone, as we'll discuss in the article that follows this one. You must decide about the importance and priority of these benefits to you.

So, let's take a look at the potential pros and cons of leasing a car.

**What are the Advantages of Leasing?**

1. **Lower Monthly Payments** Because you only pay for the portion of the value of the car or truck that you actually use, your monthly lease payments are 30%-60% lower than for a purchase loan for the same car and same term. You don't pay extra money each month to "invest" in ownership equity.
2. **No Down Payment** Car leasing provides the option of making no down payment, although you must still make the first month's payment and official tag and registration fees. Some promotional lease deals require a down payment to get the deal.
3. **More Car, More Often** Since monthly lease payments are lower than with buying, you get more car for your money and drive a new vehicle every two to four years. A luxury vehicle can often be leased for the same or lower payments than loan payments for a less expensive economy vehicle.
4. **Fewer Maintenance Headaches** Most people like to lease for a term that coincides with the length of the manufacturer's warranty coverage so that if something goes wrong with the car, the repairs are always covered. Some car companies also offer free routine scheduled maintenance for the term of the lease.
5. **Lower Up-front Cash Outlay** Most car leases require little or no down payment, which makes getting into a new car more affordable and frees up your cash for other things. However, you can choose to make a down payment, or trade in your old vehicle, to lower your monthly payment amount. Preservation of cash is a strong incentive to lease.
6. **Lower Tax Bite** In most states of the U.S. and in Canada, you don't pay sales tax on the entire value of a leased vehicle as you would if you purchased. You're only taxed on the portion of the value that you use during your lease. The tax is spread out and paid along with your monthly lease payment instead of being paid all at once.
7. **No Used-Car Hassles** With leasing, the headaches of selling a used car are eliminated. When your lease ends, you simply turn it back to the leasing company and walk away, unless you decide to buy it or trade it.
8. **GAP Coverage Included** Most car leases automatically include free "gap" protection in case your vehicle is totaled in an accident or stolen, which pays off

your vehicle when insurance doesn't cover the full loss. Loans do not generally come with automatic GAP protection and must be purchased separately.

**How About Disadvantages?**

Possible disadvantages of car leasing are the following:

1. **Early Termination Cost** If you must terminate your lease before the end of your contract, the cost is usually very high, much higher than might be expected. However, that cost can be minimized by making the right termination choices. See the *Early Termination Guide* in our **Lease Kit**. Most people end their lease on schedule and do not end early, which avoids all early termination costs.
2. **Little or No Ownership Equity** The trade-off for low monthly lease payments is that you typically do not build ownership or trade-in value in your leased vehicle. However, it is fairly common that the market value of a vehicle at lease-end is higher than the purchase option price specified in the lease contract — which means you may have equity value to use in a trade or purchase and resale. It's not unusual to end up with a few thousand dollars of unexpected equity.
3. **Excessive Mileage Charges** If you exceed the mileage allowance in your lease contract, you will be charged for the extra miles at a specified per-mile rate, usually a reasonable $0.20 per mile. A large mileage excess could result in a hefty charge, even at a reasonable per-mile rate. You can reduce your exposure if you "buy" the extra miles you expect to drive at the time of lease signing. You avoid the higher end-of-lease charge this way. If you choose this option, you will usually be refunded for any unused miles.
4. **Excessive Wear-and-Tear Charges** If you return a leased vehicle at lease-end with *excessive* dents, scratches, or unrepaired accident damage, you will be charged — because those damages reduce the vehicle's value. Most lease companies clearly specify what is considered "excessive" so that you'll know if you should get it repaired before returning your vehicle. Lease companies normally don't charge for minor scratches, dents, or stains. Get any required repairs done yourself before you return the vehicle and avoid being charged.
5. **Possible Higher Insurance Cost** Since new-car leasing and loan companies typically require *full-coverage* insurance, your insurance might cost you more than you would normally have on your other vehicles, especially if you normally carry only state-required liability insurance. However, insurance cost can be minimized by shopping for the best leased-vehicle rates at different companies. 
6. **Higher Credit Requirement** Leasing normally requires a higher credit score than buying with a loan. For those with marginal credit, a large down payment or security deposit may allow you to be approved. If you don't know your credit scores, you should — all three of them. 

## Leverage the Primary Advantage of Leasing

The primary advantage of leasing is the financial savings achieved by little or no initial cash outlay and lower monthly payments. For those people who don't need the savings for paying the mortgage and other bills, using the money for *investments* can make leasing even more attractive and multiply the financial benefits.

## Summary

Although leasing offers attractive benefits to automotive consumers, those benefits should be weighed against any potential disadvantages. There are pros and cons to be examined before making a decision.

Furthermore, there are financial differences between buying and leasing that should be considered. See our exclusive **Lease vs Buy Calculator** for more details.

It is not our purpose here to convince you that leasing is good for everyone under all situations, but rather to give you the information you need to make your own decision.

# Is Car Leasing Right for You?

**Leasing is Good For Some But Not for Everyone**

Car leasing works well for many people, but not for others. Which are you?

If you are considering car leasing, you should first determine if you are the type of driver for which leasing is best suited, and if your personal life fits well with leasing. Leasing works best for certain types of people and certain types of drivers. Are you that type of person and driver?

**Who Should Lease?**

Although you may be attracted to the many benefits of new car leasing, you should consider the questions below before making a decision.

If you answer "yes" to any of the questions, it's a good indicator that leasing may not be right for you. To do otherwise could cause you a great deal of unhappiness and unnecessary financial pain.

1. **Do you think you'll want to end your lease early?** Car lease contracts are purposely written to discourage, even prevent, early termination. To do so usually means you'll pay termination charges and all remaining payments. Therefore, if you lease, you should have a healthy stable lifestyle and a good job situation to minimize the possibility of needing to terminate early. Wanting to end a lease early is the most common problem people have with leasing.
2. **Do you typically drive your cars more than 12,000 miles a year?** New-car lease contracts limit the number of miles you can drive to 10,000-12,000 miles per year, typically. If you exceed your limit, you're slapped with "excess mileage" charges at the end of the lease. Sometimes, extra miles — if you know you'll be driving more — can be "bought" up front at the time you sign your lease at a lower per-mile cost.
3. **Do you think you'll want to customize your car, make modifications, or repaint?** A leased car doesn't belong to you, it belongs to the leasing company. Therefore, you cannot make modifications and install custom equipment that alters the car. If you do, you'll likely be charged for the cost of repairs to undo what you've done. Most people who lease don't want to modify their cars.
4. **Do you mistreat your cars or fail to keep them in good condition?** Leasing companies require that you return their car at the end of the lease with no more than "normal" wear-and-tear. Anything more and you'll pay for the damages. You are responsible for insurance, upkeep, and regular maintenance just as with a purchased car. Some people mistakenly believe the leasing company is responsible. Most people who lease successfully maintain their cars just as if they owned them.

5. **Do you prefer "fad" cars or cars that frequently change style?** Cars that are stylish and popular one year but not the next usually lose resale value quickly, which means their lease "residual" value is lower. Low residual value translates into higher monthly lease payments. This kind of car could easily have a higher monthly lease payment than a more expensive car with a better resale history.
6. **Are you emotionally attached to the idea of "owning" your vehicle?** When you lease a new car, you have no ownership during your lease, unless you choose to buy at lease-end — which about a third of all lease customers do. Leasing is not all that different than buying with a loan, in which case the bank holds the title and you don't own your car until the loan is paid off. When buying you build up some ownership equity (after depreciation) because of your higher monthly payments and, when leasing you don't. Most people who enjoy leasing don't let this bother them.
7. **Do you have a flawed credit rating?** Because leases typically require a smaller down payment (or no down payment) and lower monthly payments, you generally must have a better credit rating than would be required for a loan because of the higher risk to the lease provider. If you have a history of making credit payments promptly and don't have an excessive debt load, you're going to be fine. Otherwise, you may have to pay a higher interest rate to lease or, worse, be refused. You should **know your current credit score** before visiting a dealer. **What's your FICO score? Find out now when you check your credit report for $1 at Experian.com!**
8. **Do you like paying off your loans and driving your cars until the wheels fall off?** One of the benefits of leasing is that you can drive a brand new car every two or three years. However, you'll always be making payments. To many people who lease, this is an acceptable trade-off considering the benefit of always having a new car that is always under warranty and has the latest features and safety equipment. If you prefer to make higher monthly payments for a few years and then be payment-free until you're ready for a new car, then buying may be a better option for you than leasing.
9. **Do you have health or medical issues?** If you have potential health issues or medical problems that may prevent you from completing a car lease, it's better not to lease. Leasing is not like renting. You can't simply return a leased car to the lease company if health problems, or even death, occurs. Leases are financial obligations, similar to loans and mortgages, and must be satisfied regardless of health issues. Death doesn't cancel a car lease.

**Summary**

Leasing is best for people who have a stable financial situation, good health, and can expect to stick with a lease until the end. It's also good for those who like to drive a new car every few years, who want low monthly payments, who drive a fairly predictable number of miles each year, who maintain their cars properly, and who have good credit. They like having the option to purchase their car at lease-end for a guaranteed price.

Leasing may not be the right answer for people who prefer to buy their cars and drive them for many more miles, and don't mind the higher initial loan payments. They prefer paying off their cars, having some ownership value, and driving payment-free for years, even with the risk of out-of-warranty repair costs as their cars get older. They like lower insurance costs, having a choice about repairing damages, or not, and customizing their cars if they want.

# Types of Car Leases

**Two Types of Car Leases - Only One is Right**

Automobile leases come in two varieties: **Closed-end** and **Open-end**.

There's a big difference between the two types of leases and you should understand that difference before you sign your lease contract.

Federal regulations require that the type of lease — *open-end* or *closed-end* — be clearly indicated on all consumer car lease contracts.

Dealer salespeople typically don't have this level of understanding of leases. So, don't ask. You'll only get the answer he/she thinks you want to hear. Read the contract form for yourself.

**Closed-end Leases**

Closed-end leases are sometimes called "walk-away" leases, and are most common for consumer leases today. This type of lease allows you to return your vehicle at the end of the lease and have no other responsibilities other than possible payment of excessive damage or mileage charges.

Closed-end leases are based on the concept that the number of miles you drive annually is fairly predictable (12,000 miles per year is typical), that the vehicle will not be driven in rough or abusive conditions, and that the vehicle's value at end of the lease (the residual value) is therefore somewhat predictable.

At the time you lease, the leasing company estimates the vehicle's lease-end residual value based on the expected number of driven miles. If the vehicle is actually worth less than the residual when you turn it in, the leasing company takes the financial hit, not you.

On the other hand, if the vehicle is worth more than the residual, and you have the option to purchase, you may want to buy the vehicle and keep driving it — or sell it and make a profit. This happens frequently.

**Open-end Leases**

Open-end leases are used primarily for commercial business leasing. In this case the lessee, not the leasing company, takes all the financial risks, which is not so much a problem for a business, since the cost can be expensed. Annual mileage on a business lease is usually much greater and less predictable than the average 12,000 miles-per-year of a non-business lease.

In open-end leases, you are responsible for paying any difference between the estimated lease-end value (the residual) and the actual market value at the end of the lease. This could amount to a significant sum of money if the market value of your vehicle has dropped or you drive many more miles than expected. Often, the residual for an open-end lease is set much lower than for a non-business closed-end lease, which reduces the lease-end risk, but can significantly increase the monthly payment amount.

**Business Leasing**

This web site is primarily about consumer vehicle leasing, not commercial or business leasing. Although there are similarities, there are also many differences.

There are tax benefits available when leasing a vehicle used for business purposes that are not available for personal leases.

Evaluation of a business lease is best handled by a tax accountant or business finance advisor who is familiar with details of the business and its financial objectives.

If you are interested in a business vehicle lease, see the fleet manager at your local dealer to make arrangements and to determine which type of lease will be best for your business — after consulting with your tax advisor.

Again, this web site is not about car leasing for businesses.

**Summary**

As a consumer, make sure you only agree to a closed-end consumer lease. Even though most non-business leases you'll encounter will be of this type, read your contract closely just to be certain.

Most consumer lease contract forms will clearly state, at the top of the form, that it is for a closed-end lease.

# How Car Leasing Works

### Understand How Car Leasing Works to Take Control

First, let's do away with a common misunderstanding about car leasing: car leasing is not the same as car renting. Car renting and leasing are two totally different financial concepts.

Automobile leasing is based entirely on the concept that you pay for the amount by which a vehicle's value depreciates during the time you're driving it. Depreciation is the difference between a vehicle's original MSRP value and its value at lease-end (residual value), and is the primary factor that determines the cost of leasing. The smaller the difference, the lower the lease payment, and the better the deal.

### It Depends on the Car Make and Model

If you consider two different brand cars, both costing $30,000 when new, where one is worth $15,000 after three years and the other worth only $12,000, the first car will cost less to lease because of its smaller depreciation amount — and smaller difference between initial cost and lease-end value.

Different makes and models of vehicles can have dramatically different depreciation rates. Vehicles having the lowest depreciation make the best lease deals.

Generally, European and Japanese makes have lower depreciation than American brands. Honda, Toyota, and Volkswagen have consistently held low depreciation ratings (high resale values), as have Mercedes, Lexus, and other luxury brands. See our Lease Kit for lease ratings on all makes/models vehicles, based on expected depreciation values.

Let's take a look at MSRP and residual value, as well as the other components of leasing — capitalized cost reduction, money factor and lease term — to understand how car leasing works.

### Manufacturer's Suggested Retail Price - MSRP

MSRP is the full price for a vehicle as displayed on its window sticker, including optional packages and destination charges. Dealer fees are not considered part of MSRP, although these charges are part of the overall cost of the vehicle.

Dealers will usually agree to discount the sticker price if you ask — and if you are willing to haggle for it — unless the vehicle is in hot demand and low supply.

You can also get pre-discounted dealer prices through online new-car pricing services such as **TrueCar.com**. This service shows you what other people are paying for the car you want — and give you a low price guarantee that is often below dealer invoice price. Best of all, it's free.

### Capitalized Cost (Cap Cost) - Lease Price

When you and your dealer sit down and agree on a price for a leased car, this becomes the capitalized cost, or "cap cost." In a good lease deal, the cap cost will be significantly less than MSRP. Cap cost is sometimes called lease price.

Because this is where dealers make their profit, they will sometimes imply, or possibly state outright, that price isn't negotiable in a lease, and that somehow leases are different because you aren't buying the car. This is simply not true.

It's in your best interest to always negotiate the lowest price (capitalized cost) possible — a discount off the sticker price — just as if you were buying. The lower your capitalized cost, the lower your monthly lease payments will be.

When negotiating a car lease price, it's important to **know what other people are paying** for the same car you want. Otherwise, you likely won't know what price you're negotiating for, especially if there are manufacturer incentives available. You can easily get this information at **TrueCar.com**, an invaluable resource for anyone buying or leasing a car.

### What's In Cap Cost

Capitalized cost may also include certain fees, such as an acquisition fee (similar to mortgage "points", or loan origination fee). Acquisition fees are often not specified in lease contracts, so it may not be readily apparent that you are paying it in your capitalized cost, although it can be expected and is a normal part of a car lease.

If you haven't fully paid off the vehicle you're trading, cap cost would also include any remaining loan balance ("negative equity") after trade-in credit is applied (this is not a good practice if you can avoid it).

### Capitalized Cost Reduction

Capitalized cost (lease price) can be reduced by rebates, factory-to-dealer incentives, trade-in credit, or a cash down payment. These are known as cap cost reductions. Even modest cap cost reductions, such as a down payment, can create significantly smaller monthly lease payments, especially in shorter leases.

When you subtract cap cost reductions from cap cost, you get net capitalized cost, sometimes called adjusted cap cost. This is the figure you'll use in the lease payment formula later (see Monthly Payments).

Net Cap Cost is the negotiated price of the vehicle plus any other costs minus any Cap Cost Reductions.

## Residual Value

The wholesale worth of a car at the end of its lease term, after it has depreciated in value, is called its *residual value*, sometimes called "resale value." The higher the residual value, the more the car is worth at lease-end — and the lower your lease payments.

Since nobody can truly predict the future, residuals are only educated guesses based on historical resale-value data for specific automobile makes and models.

Leasing companies and banks subscribe to services that provide this kind of industry data, and then use it as a basis to set their own residual numbers.

Car manufacturers' leasing companies often temporarily boost residuals on slow selling vehicles so that they can offer better lease deals. These are called *subvented* lease deals.

## Residual Percentage

Residuals are usually stated as a percentage of MSRP. A 36-month, 50% residual on a new $30,000 car means that its estimated depreciated value at the end of a 3 year lease will be $15,000. The actual value at the end of 36 months might be higher or lower. (Our **Lease Kit** contains estimated residuals for all current auto makes and models).

Residual percentages decrease as the length of a lease, called the lease term, increases. This is because the older a vehicle gets, the less it's worth.

For example, the 24-month residual on a particular car might be 57% of MSRP, decreasing to 50% for 36 months, then to 44% for 48 months, and 39% for 60 months.

Residuals fall rapidly in the first 24 months, then more slowly in later months. This is why shorter term leases can be more expensive than longer leases.

## High Residuals Make the Best Leases

The best cars to lease are those whose 36-month (3 year) residuals are at least 50% of their original MSRP value.

Remember, the higher the residual, the lower the lease payments. This is not to say that cars with lower residuals cannot be good lease deals, it's just that you get more car for your dollar with the high-residual models.

Lease companies often artificially raise residual values on particular vehicles for limited-time promotions to make leasing more attractive. (See the **Lease Kit** for lease ratings on all vehicle makes and models). Generally, residuals set by car manufacturers' finance companies (Ford Credit, Honda Financial Services, and others) are higher than industry averages to help promote lower lease payments.

**Money Factor - Lease Rate**

When you lease, you're tying up the leasing company's money while you're driving their car. Remember, they spent their money to buy your car from the dealer so that they could lease it to you. They rightfully expect you to pay interest on that money, the same as with a loan.

This interest is expressed as a *money factor*, sometimes called *lease factor*, *lease rate*, or simply *factor*, and is specified as a small decimal number such as .00297. (Note: dealers will sometimes confuse you by quoting money factor as a larger decimal, such as 2.97, which means .00297, because it sounds like an attractively low annual interest rate.)

*Money factor can be converted to annual interest rate (APR) by multiplying by 2400 (Yes, it is always 2400 and is not related to the length of the loan in months). For example, a money factor of .00297 multiplied by 2400 = 7.13% APR*

A good rule of thumb: Lease money factors, converted to APR, should be comparable to, if not lower than national new-car loan interest rates.

Like interest on a loan, the lower the money factor, the lower your monthly lease payments.

Some recent manufacturers' lease deals have offered lease rates as low as .000375 (0.9% APR), or lower. However, you may not qualify for these great money factors unless if you have a spotless, or near spotless, credit rating. Credit requirements for leasing are somewhat more strict than for purchase loans because of higher risks to the financial company.

**Money Factor Depends on Credit Score**

If your credit history is flawed, even if it's a mistake, you'll pay a higher money factor finance rate — or not be able to lease at all. It's always advisable to **know your credit scores before you visit a dealer**.

You actually have 3 scores from three credit agencies — and you don't know which one will be used by your car dealer and finance company. **Check all 3 of your current credit scores now!**. If you spot problems in your credit score, get them resolved with the credit agency as soon as possible. Mistakes on your credit history can haunt you for up to 10 years.

*Note that money factor and interest rate are not required by law to be shown in lease contracts. So, if you want to know your lease rate, you'll have to ask — or you can calculate it using the* Lease Inspector *in our* ***Lease Kit****.*

**Lease Term (Months)**

*Lease term* is the length of time a car is leased, usually expressed in number of months. Typical leases are 24, 36, 39, or 48 months, although "oddball" terms, such as 27, 30, and 42 months are sometimes used. These odd lease terms are generally designed to have your lease end and get you back into the showroom during a slow sales period.

Although longer leases produce somewhat lower monthly payments (see interactive graphic at right), it may be smarter to choose a shorter lease term. Here's why.

**Avoid Long Lease Terms**

Choose a lease term that's no longer than the general coverage ("bumper-to-bumper") warranty (not "drive train" warranty) that comes with your vehicle. That way, you're covered for the entire duration of the lease if something breaks. For example, if a vehicle's "bumper-to-bumper" warranty is 36 months, don't lease for longer than 36 months.

Many major vehicle problems start in the fourth or fifth year. For this reason, 60 month leases, which are declining in popularity, are not recommended except for those few brands that have unusually long warranties (Hyundai: 5 years).

**Summary**

Understanding how car leasing works is essential to being able to lease intelligently and getting the best deals.

# Lease Payment Formula Explained

**How Car Lease Payments are Calculated**

We've already discussed the separate factors that contribute to the cost of car leasing: *net cap cost, cap cost reductions, residual, money factor,* and *term*. Now, let's put it all together and see exactly how a monthly lease payment is calculated.

It's easy when you understand how it works.

The "secret" lease payment formula described below is used by dealers and lease financing companies, who would prefer that you not know about it.

**Even federal leasing regulations do not require that dealers and leasing companies actually disclose how your payment is calculated**.

The calculation doesn't appear anywhere on a car lease contract form. There is no way to "check the math" unless you know the formula or have a business calculator.

The result is that the vast majority of people who lease do not know how to check dealers' math on their lease contract and cannot detect the existence of simple errors, intentional "mistakes", or out-and-out fraud.

*Lack of knowledge of how monthly lease payments are calculated is one of the key reasons that consumers are paying too much for car leases today.*

**Importance of Knowing How to Do Lease Payment Calculation**

Let's establish why it's so important for you to know how to calculate monthly car lease payments. Consider the following:

- If a dealer figures your lease payment based on full sticker price rather than the discounted price you negotiated with him, how will you know?
- If a dealer doesn't give you proper credit for your trade-in, even though it's in your contract, how will you know?
- If a dealer adds hidden charges and fees to your lease without mentioning them or showing them in your contract, how will you know?
- If a dealer mistakenly "drops" a zero and gives you credit for only $100 of a $1000 rebate, even though your contract shows the $1000 rebate, how will you know?
- If a dealer doesn't account for your $3000 cash down payment in his payment calculation, how will you know?
- If a dealer "bumps" the interest rate (money factor) that he has quoted you (money factor is not shown in lease contracts), how will you know?

Remember, all you see shown on a lease contract is a "bottom-line" monthly payment figure, after the calculations have been done by the dealer in the back office. Therefore, you must be able to check a dealer's lease payment figures to make sure there are no "mistakes," intentional or otherwise.

If your payment figures and the dealer's don't agree, the only possible reason is that he's using a different set of numbers for cap cost, residual, money factor, or term than the numbers he's given you. Ask him to give you *exactly* the numbers he's using — and you should be able to *exactly* match his results, to the penny.

**Calculating Monthly Lease Payments — Options**

Let's now look at the lease payment formula — **the way that all car leases are calculated**.

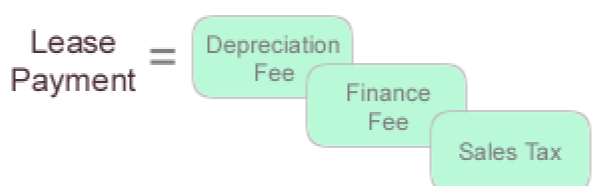
You can use the formula and calculate monthly payments with a simple pocket calculator.

If you don't particularly like math, our Lease Kit provides easy to use Lease Payment Tables that can be printed and used in place of the formula. The printed tables can be carried with you to the dealer's showroom so that you don't need to remember how to do the math there.

Further, our online Lease Calculator does all the math for you. Simply plug in the numbers and get your answer immediately. If you have a smartphone and can access our web site on the Internet, you can use the online calculator right in the dealer's office to check his calculations.

**Monthly Lease Payment Formula**

A lease payment is made up of three parts: a **Depreciation Fee**, a **Finance Fee**, and **Sales Tax** — all added together. We'll look at the first two parts of the formula below. Sales tax is covered a little later.



**Depreciation Fee**

The depreciation fee portion of your payment simply pays the leasing company for the loss in value of its car, spread over the lease term (number of months), based on the miles you intend to drive and the time you intend to keep the car. You pay off an equal portion of the total expected depreciation each month. This is calculated as follows:

**Depreciation Fee = ( Net Cap Cost – Residual ) ÷ Term**

Remember, Net Cap Cost is Gross Cap Cost (selling price you negotiate with the dealer) plus any add-on dealer fees and taxes that will not be paid up-front in cash, plus any prior loan balances, minus any Cap Cost Reductions (down payment, trade-in, or rebates). Net Cap Cost does not include any lease charges that you will pay in cash at the time of your lease signing.

Residual is lease-end resale or residual value (as provided by your dealer), and Term is the length of your lease in months.

A good lease deal is when you have the lowest possible Net Cap Cost with the highest possible Residual, along with the lowest possible Money Factor.

**Finance Fee**

The finance fee portion of your monthly lease payment is like interest on a loan and pays the leasing company for the use of their money. It's calculated as follows:

**Finance Fee = ( Net Cap Cost + Residual ) × Money Factor**

Yes, you add Net Cap Cost and Residual — this is not a mistake. It's not double-counting as it may appear. It's simply a way of calculating the average amount financed without using complicated constant-yield annuity business formulas (for more details, click here). This is the method used by all lease companies and dealers.

Also be aware that you're paying finance charges on both the depreciation and residual (the total of which is the negotiated selling price of the car). Remember, you're tying up the leasing company's money while you're driving their car. They used their money to buy the car that you will drive while you lease. Technically, you're paying finance charges on half of the depreciation (the average value) and all of the residual value for the term of the lease.

The finance fee that you pay with a car lease depends on your **credit score**. The higher your score, the lower the fee, and the lower your monthly payment. You should always know your latest credit score before going shopping for a car lease or loan. **What's your FICO score? Find out now when you check your credit report for $1 at Experian.com!**

**What About Interest Rate?**

You won't find your Monthly Finance Fee or Interest Rate or Lease Money Factor shown in your lease contract. It's not required by law. Rather, they only show you a "Lease Charge" or "Rent Charge," which is the sum of all your monthly finance fees over the entire term of your lease. So, to find your Monthly Finance Fee when you only know your "Lease Charge" (or "Rent Charge") use the following formula:

**Monthly Finance Fee = Lease Charge ÷ Term**

— or —

If you know your "Lease Charge" or "Rent Charge" from your lease contract and you want to know your Money Factor, use the following formula:

**Money Factor = Lease Charge ÷ ( (Net Cap Cost + Residual) x Term )**

**— then —**

To convert Money Factor to APR Interest Rate, use the following formula:

**Interest Rate = Money Factor x 2400**

or use our

**Money Factor - Interest Rate Converter**

**Total Monthly Payment**

Now, add the Depreciation Fee and the Finance Fee that you calculated above to get your Total Monthly Payment.

Sales tax must also be added in most states, but we'll hold that discussion until later.

**Total Monthly Payment = Depreciation Fee + Finance Fee**

**Example Calculation Using the Leasing Formula**

So now that we've looked at the car lease payment formula, let's see how it actually works.

Let's assume you've decided on 3-year (36 month term) lease of a Toyota Camry XLE that has a sticker price of $24,600 (MSRP).

You have managed to negotiate the price down to $23,000 (Cap Cost). You decide not to make a down payment, but you have a trade-in worth $5000. Your Net Cap Cost is therefore $23,000 - $5000 = $18,000.

Now, the dealer tells you (because you asked) that the Money Factor is .00375 (.00375 x 2400 = 9.0%) and the Residual Percentage is 60% of MSRP. So your Residual amount, in dollars, is .60 x $24,600 = $14,760.

Now let's do the math:

**Depreciation Fee = ( $18,000 – $14,760 ) ÷ 36 = $90.00**

**Finance Fee = ( $18,000 + $14,760 ) × .00375 = $122.85**

**—**

**Monthly Lease Payment = $90.00 + $122.85 = $212.85 (sales tax not included)**

**Summary**

The lease payment formula is not complicated and can be used on a common pocket calculator. However, if you're not comfortable with performing the math, especially under pressure in a dealer's showroom, you can use the easy *Payment Tables* contained in our optional **Lease Kit**.

Or if you've already leased and need to know if your deal was fair and honest, use the *Lease Inspector* in our optional **Lease Kit**.

Or you can use our **Lease Payment Calculator** to calculate payments. Or use our **Lease vs Buy Calculator** to compare lease versus loan costs.

# Car Lease Fees and Taxes – Explained

**Understand How Car Leasing Fees, Charges, and Taxes Work**

In car leasing, as in buying, there can be charges, fees, costs, and taxes that often surprise newcomers. Fees can differ by dealer, leasing company, and by the state/county/city in which you live. The same charge or fee can sometimes have different names, depending on car company.

Most of the fees charged in leasing are the same as those charged when buying – a few are unique to leasing.

Let's take a look at the most common types of car lease charges, fees, and taxes:

**First Payment**

A lease is different from a loan in that payments are made at the *beginning* of the month in which they're due, while loan payments are paid at the *end* of the due month. This means **you make your first car lease payment to your dealer at the time you sign your lease contract**. The first payment is NOT considered a down payment or a security deposit — it is simply the first monthly payment on your lease. Your second payment will be due one month later. Your last payment is due a month before your lease ends.

**Down Payment (Capitalized Cost Reduction)**

While not a fee, a down payment is part of the cash paid at the time of lease signing. Most leases allow the option of making a down payment — or not. A down payment is not a deposit but simply a way of pre-paying part of the lease to reduce the monthly payment amount. **Don't confuse down payment with the total amount of cash due at lease signing**, which can include some of the other fees discussed below.

**Security Deposit**

A few, but not all, car leases require an up-front cash security deposit. It's a fee that is usually about the same amount as, or a little more, than the monthly payment amount. The fee will be refunded to you at lease-end, less any disposition, mileage, or damage charges.

If you have a good credit score or have leased with the same finance company before, you will not have to make a security deposit. You should know your credit score so that you don't receive any surprises when you visit a dealer. You actually have 3 different scores from the three major credit bureaus — and you won't know which one your dealer and lease company will use. **Check all 3 of your current credit scores now!**

Some lease companies allow you to make a security deposit as a way of reducing your finance rate (money factor). The larger the deposit, the lower the rate. This is a good deal if you have poor credit and have the cash to spare. The money is returned to you at the end of the lease.

**Acquisition Fee (Bank Fee)**

An acquisition fee, sometimes called a "bank fee," is an administration fee charged by a car leasing company, much like "points" or an "origination fee" on a mortgage. It is often not explicitly shown in your contract, but is included in your Capitalized Cost. You should ask about it if you don't see it mentioned. However, it is becoming more common for the acquisition fee to be listed and charged as part of the up-front "due at lease signing" cash, although you may have the option of rolling it back into the lease if you want.

This fee is typically in the range of $495 to $995, with averages in the $595-$795 range depending on the car company. High-end luxury vehicles have higher acquisition fees than lower priced cars. Although this fee is set by the lease finance company, dealers sometimes "bump" the fee to add a little extra profit for themselves. If you feel this fee has been "bumped" by the dealer, you can attempt to negotiate it down. Otherwise, acquisition fees are not negotiable.

**Disposition Fee**

This is a typical leasing fee, set by the car lease finance company, that is due at the *end of the lease* to compensate the leasing company for the expenses of selling or otherwise disposing of a returned lease vehicle. Normally the fee is not required if you decide to purchase your vehicle at lease-end, although a few leasing companies also require it even then. In this case, try to negotiate it out of the deal. $350 is typical for this fee. Some lease companies, such as Honda, do not charge a disposition fee (at the time of this writing). If you made a security deposit at the beginning of your lease, it can be applied at lease-end to pay your disposition fee.

**Sales Tax**

If you make a down payment (Capitalized Cost Reduction) on your auto lease, you will be charged state and local sales tax on the down payment amount in most states and in Canada. It is payable at the time you sign your lease contract as part of your "due at lease signing" amount.

Although most states only charge sales tax on individual monthly payments (and down payment, if any), some states, such as **Texas, New York, Minnesota, Ohio, Georgia, and Illinois**, require the entire sales tax to be paid up front, based either on the sum of all lease payments or on the full sale price of the vehicle, depending on the state. **Georgia** now has an up-front title ad valorem tax but no more monthly or annual taxes. Customers often choose to roll up-front taxes back into the capitalized cost and finance it with the lease. See below for more details.

If you trade in a vehicle at the time you lease or buy a new car, you are given sales tax credit for the value of the trade-in in many states.

**Registration, License, Tag, and Title Fees**

These are required official fees and are the same fees you pay in your state whether you lease or buy your new car. There are no separate or special fees for leases.

Tag, title, and registration fees are official fees required by state and local governments. Dealers simply collect the fees, without markup, and pass them along to the appropriate government agencies. These fees are not negotiable.

Some fees charged by dealers are not official fees but are often given official-sounding names, but are actually extra dealer profit. It's often difficult to determine which are official and which are not. The "extra profit" fees can often be negotiated.

**Property Taxes**

Some states have annual property taxes (often called "ad valorem" tax) that apply to automobiles, purchased and leased. Technically, such taxes are the responsibility of the owners of leased vehicles, which are the lease finance companies (lessors), but common practice is that the taxes are paid by the lessees, just like all other official fees and charges.

In most states that charge property tax on leased vehicles, the lessee is billed directly, just as if he owned the car. In other states, the lessor (lease finance company) is billed and pays but, in turn, bills the lessee for reimbursement.

**Doc Fees**

A documentation fee ("doc" fee) is typically charged by dealers — as a kind of administrative fee — for both purchased and leased vehicles. The fee amount ranges from about $250 to $600, much of which is simply added profit for the dealer. Many dealers have the fee pre-printed on the sales form to make it seem official. Some dealers are willing to reduce or waive documentation fees, and others simply refuse to negotiate as a matter of company policy.

Dealers often have fees such as "bank fees" or "prep fees" or "delivery fees" that are completely bogus and should be negotiated out of any car purchase or lease deal.

**Dealer Add-On Products and Costs**

Just when you think you've negotiated your best deal on your new car, you are ushered into the Finance Manager's office and subjected to a series of high-pressure sales spiels for high-cost, high-profit add-on products and services that can quickly increase your cost if you agree to them. Examples are various "protection" plans or products such as window VIN etching, paint sealer, extended warranties, fabric protectant , rust proofing, credit insurance, or lease wear-and-tear coverage. Generally speaking, these products are overpriced and not worth the cost, and in some cases, absolutely worthless. **We advise that automotive consumers don't buy these products**. In many cases, the products can be purchased elsewhere at much less cost.

**When are Fees and Taxes Paid?**

When a lease contract is signed, there are certain fees, taxes, and charges due as up-front cash. These include the first month's payment, any down payment, sales tax on the down payment, any security deposit, and official state/county license/tag/registration fees. The lease acquisition fee is sometimes included as well.

The total of all these fees are usually called "lease inception" fees, "cash due at lease signing", or "drive out" costs.

Notice that a **down payment is only part of the total cash "due at signing" amount**. Let's say it another way so that it is clear — down payment and cash due at lease signing are NOT the same thing. Down payment is only part of cash due. This sometimes confuses car leasing consumers.

Official tag and registration fees are usually collected as up-front cash. These fees are not included in the lease payments you might see as part of a TV commercial, on a car company web site, or newspaper ad. Even if you see a "zero down" lease deal, you still must pay the official fees at the time of signing.

The disposition fee is collected at the end of the lease when a vehicle is returned to the lease company and, in some cases, when the vehicle is purchased. Some states charge sales tax on the disposition fee when it is paid. Any charges for excess miles or wear-and-tear may also be taxed, depending on the state/county.

Security deposits are collected at the beginning of a lease but returned by the lease company at the end of your lease, unless you have excessive wear and tear or are over mileage, in which case the deposit is used to help pay those penalties. Security deposits are not taxed.

**Sales Taxes and Leasing**

All U.S. states (except **New Hampshire, Alaska, and Oregon**) and Canada impose a sales tax (often called a "use tax") on motor vehicle purchases by consumers. In the case of leasing, the lease finance company passes the sales tax along to you, the lessee, even though the lease company is the actual owner of the vehicle. However, the way it's done can be quite different from state to state, even region to region.

The most common method is to tax monthly lease payments at the local sales tax rate. This means you only pay tax on the part of the car you lease, not the entire value of the car. For example, if your local sales tax rate is 5%, simply multiply your monthly lease payment by 5% and add it to the payment amount to get your total payment figure. A few states do it differently (see below).

As a side note, with this method you are paying sales tax not only on the depreciation amount of your payment, which is fair, but you're also paying tax on the finance charges, which is not so fair. This is an area that begs for changes to state tax laws.

Canadians pay sales tax (PST + GST) only on monthly payments, as in most of the U.S.

**It Depends on Where You Live**

In some states, such as **Georgia**, you pay sales tax up front on the capitalized lease cost, or lease price (see **Georgia Car Lease**). In other states, such as **Illinois** and **Texas** (see **Texas Auto Leasing**), you actually pay sales tax on the full value of the leased car, not just the leased value, just as if you were buying it.
In **Illinois**, you will pay monthly taxes as of January 1, 2015 (see **Illinois Car Lease Tax**).

In **New Jersey**, you have a choice of paying up-front taxes on either the full purchase price or the total of lease payments. In **New York, Minnesota, and Ohio**, you pay tax up-front on the sum of lease payments (see **New York Car Leasing** and **Ohio Car Leasing** for more details).

In **Virginia**, you pay full sales tax up front and receive no sales tax credit for your trade-in vehicle. Depending on the county in which you live, you may also pay a personal property tax that, strangely, is billed to you twice a year through your lease finance company.

Some states, such as **Ohio**, tax all non-official fees; others, such as **Minnesota**, don't. Most states tax the lease acquisition fee; a few don't. Some states, have a cap on the total amount of taxes paid.

If you are trading a car, some states allow you sales tax credit when leasing, although the way in which the credit is calculated varies.

Generally, you pay sales taxes for the locality in which you live and "garage" the car, not the locality in which the car dealer has his showroom or where you lease. You cannot avoid sales tax by leasing in one state and "garaging" the car in another.

Some states also have annual **property taxes** (often called *ad valorem* tax) in addition to sales tax.

If you move to a new state or county at any time during your lease, your taxes and your monthly payment may change – up or down – and, in some cases, require a cash payment when you register the car with the state DMV. If you plan to move soon, contact the taxing agency in the state to which you'll be moving to determine how it will affect you and your lease.

### Finally, Don't Forget Insurance

Although auto insurance is not one of the fees charged by a car dealer, you won't be able to drive your car off of the dealer's lot if you don't have proof that you have purchased insurance that covers your new vehicle — whether you lease or buy. So, in this sense, it is one of the initial fees.

Since leasing (or buying with a loan) requires you to have *full coverage* insurance and rates vary widely for such coverage between insurance companies, it pays to get free quotes from different companies. One company we like and have recommended for years is **NetQuote.com. They can give you free quotes from different companies.** **Also get a free online quote from Esurance !** Based on the quotes you receive, go with the best deal.

### Summary

Car lease fees and taxes can vary by car dealer, car company, and by the locality in which you live. Some are unique to leasing, most are not. Some are official fees, many are not. Some fees are negotiable, some are not. Some can be rolled into a lease, some cannot.

To find current information about official fees and sales tax when leasing a car in your state, search online for your state's Department of Motor Vehicles and Department of Revenue web sites.

# Car Lease Contracts Explained

**Understand How Car Lease Contracts and Agreements Work Before You Lease**

Car lease contracts, or "lease agreements," from different dealers and finance companies can vary in detail, but contain the same common elements. Some are easier to read and understand than others. There are no "standard" car lease contracts.

You should know and understand at least the basics of car lease contracts before you lease. Doing so will allow you to make informed decisions and avoid costly mistakes.

In fact, if possible, you should pick up a blank lease contract form from your dealer before you actually plan to lease to allow yourself plenty of time to examine it. Seeing a contract for the first time as you're sitting tired under the hot lights in the dealer finance manager's office is not the ideal time to study it.

Our **Lease Kit** contains a *Sample Car Lease Contract* form, each section of which is annotated and explained in detail. This is a typical standard lease contract form but may not look like the exact form that your dealer uses. It is meant to serve as an educational tool and is not meant to substitute for the actual contract that you'll receive from your car dealer.

Let's now look at some of the elements of a typical auto lease contract.

**Disclosure Statement**

Federal law requires that automobile lease contracts contain specific sections in which certain facts and figures are disclosed to you. This part of a leasing contract is often titled, "FEDERAL CONSUMER LEASING ACT DISCLOSURES." The following sections are among those required:

- Amount due at signing
- Monthly payment
- Other charges
- Total of payments
- Total of finance charges
- Amount due at lease signing
- How monthly payment is determined
- Early termination statement
- Wear and tear explanation

Although the regulations certainly go a long way in the right direction, there is still much room for improvement. For example, the law does not regulate the actual figures in the contract, such as the amount you are credited for your trade-in, the vehicle's price, the finance rate, or whether the monthly payment figure was even calculated correctly.

Lease contracts are often written by dealers with mistakes in them — either legitimate or intended — and there's no law or punishment to help prevent it, unless it can be proven to be out-and-out fraud.

**You must be able to catch and correct problems before you sign your contract. Afterwards is too late.**

There is no 3-day "right to cancel" or "cooling off period" law for automobile purchases or leases, as many people mistakenly believe. This is why it is important that you read your contract and be able to verify the monthly payment figures yourself, before signing.

Our **Lease Kit** includes a *Sample Lease Contract* with easy to understand explanations, as well as an itemized *Contract Checklist*, *Lease Inspector* calculator, and *Payment Worksheets* to help you make sure your contract is correct before you sign.

**Required Auto Insurance**

Most auto lease agreements require you to maintain insurance coverage: Bodily injury or death liability: $100,000 per person / $300,000 per occurrence, property damage liability: $50,000, comprehensive and collision for actual value with no more than $500 deductible. In Canada, $1,000,000 in liability coverage is required.

While this may be more coverage than you might buy normally, it's always smart to have maximum protection in these times of expensive repairs and huge lawsuits, regardless of whether you're leasing or buying.

Don't assume your current insurance company has the best rates for a leased vehicle. It's *always* a good idea to check around for the best rates before you lease. **Get your free auto insurance quote from Esurance in minutes & start saving today!**

Read our article, **Car Lease Insurance** for more details.

**Excessive Wear and Tear Penalty**

Leasing contracts specify that you must return the car at lease-end with no more than "normal" wear and tear. Most contracts do a good job of spelling out exactly what "normal" means. Basically, it means you have to take reasonably good care of the car and keep it repaired and maintained.

> *This is the part of the leasing contract that is most responsible for "leasing phobia" with many first-time leasers, and causes some people to decide not to lease. These people have a tremendous unfounded fear that, when they return the car, the leasing company will examine it with a fine-tooth comb and penalize them thousands of dollars for minor dings and scrapes. This is*

*typically not the case. Most lease companies are relatively lenient and allow scratches and dings that are expected from normal city and highway driving*.

Of course, if you actually have accident damage, significant dents, obvious paint damage, seriously worn tires, or deep scratches, you should get it repaired before your return the car — or you'll be billed after you return the car. It's nearly always cheaper if you get the repairs done yourself rather than waiting to be billed by the lease company.

### Excessive Mileage Penalty

Leasing agreements specify the maximum average annual mileage you're allowed without paying a penalty. The most common mileage allowance is 12,000 miles per year, although 10,000 or 15,000 miles are often seen.

Make sure that when you lease, you select the limit that best fits your driving needs because the penalty at lease-end for exceeding the limit can be expensive — typically in the range of $0.20-$0.30 per mile. If you know you'll drive more miles, you can "buy" the extra miles at the time you lease for a better rate.

### Early Termination

Lease contracts spell out the conditions under which the contract may be terminated. Some lease companies do not allow termination in the first few months or last few months of the lease. The way in which an early termination is handled varies by lease company. Costs can also vary depending on the method used to calculate remaining lease balance.

Terminating a lease contract early can be very costly, and should be avoided if at all possible. As stated before, this is the part of leasing that gets the most people in trouble.

If you're already in a lease and need to end it early, there are options available to you that may allow you to eliminate or minimize your early termination costs. See the *Early Termination Guide* in our **Lease Kit** for details and instructions on choosing the right option.

### Destroyed or Stolen Vehicle

Having your leased vehicle totally destroyed or stolen is a form of early termination and, unless you have GAP protection, you are exposed to the same penalties and payments as described above. GAP protection, sometimes called GAP insurance or " loss waiver", covers any additional amount that you might owe after your insurance company pays off.

If your lease contract doesn't automatically provide GAP coverage, and it isn't offered by your dealer, check with your auto insurance company or bank.

## What is NOT in Your Car Lease Contract

Lease contracts do not show you the finance rate (money factor) you are paying. However, it is required that you be shown *total finance charges* (typically called "rent/lease charge") — but not the rate that results in those charges.

You may not be shown the lease acquisition fee (see **Lease Fees and Taxes**) as a separate line item in your lease contract. The fee is typically added to the cost of the vehicle and included as part of Net Cap Cost, although not always identified separately. In some contracts, the lease company requires the payment of this fee up-front in cash, in which case it is specifically identified.

Also not contained in your lease contract are early termination details and amounts. Although your contract form will explain the early termination process in very general terms, it does not and can not tell you exactly what you'll pay if you decide to end your lease early. The amount you pay depends on a number of factors that will be determined at the actual time of termination, which can be provided by your lease company. However, you can be assured that the amount will be larger than you would have expected.

## Summary

It is important to know and understand what your car lease contract contains before you actually lease. It's too late if you find mistakes later.

# Preparing to Lease a Car

**Preparation is the Key to Successful Car Leasing**

It's estimated that as many as 85% of all automotive consumers never do any homework or research prior to visiting a dealer to buy or lease a car.

Making a small investment in the time to do some initial research will return big benefits in the end. To not do so means you're at the mercy of the dealer, who is already well practiced to deal with customers who are not prepared. Remember, he does this every day for a living; you only do it every few years when you need a new car.

**Know the Vehicle You Want to Lease**

You should know exactly what vehicle you want and everything about it — features, styles, optional equipment, and prices — before you visit your dealer to lease. Try to know as much about your vehicle as the dealer's salespeople.

> *Choosing the right vehicle can make a significant difference in monthly lease payments. See the* ***Lease Kit*** *for Lease Ratings for all vehicle makes and models.*

Vehicles that have a history of high resale values and, therefore, high lease residuals make the best lease deals. Be wary of models that have had large numbers of recalls or safety problems. And don't choose models that drastically change styles every year; they typically don't hold their value very well and are more expensive to lease. See our article, **Cheapest Cars to Lease** for more details.

**How Much to Pay**

Everyone knows that you typically don't pay full list price when buying or leasing a car — unless the car is a very hot seller that is in short supply — or if you're among the one out of every seven people in the U.S. who don't know that car prices are negotiable.

> *The key to knowing what to pay for a new car is knowing the factory invoice price. This is the price dealers pay the manufacturer for a vehicle.*

The difference between factory invoice and MSRP (*Manufacturer's Suggested Retail Price*) is the dealer's potential profit margin — and your bargaining range. Depending on the vehicle, this margin can be as little as 4% or as much as 16%, or more, of the sticker price. You won't get very far asking a dealer for a 8% discount on a car on which he can only make 6% maximum profit even if he sells at full sticker price.

The **Lease Kit** provides *Dealer Profit Margins* for all vehicle makes and models so that you can conveniently determine, at a glance, which vehicles have the most bargaining room. Generally, you'll be able to get a better deal on a $20,000 car with a 10% margin than another brand, same price, with only a 6% margin.

Savvy automotive consumers always deal from the invoice price up, not from sticker price down. So, how much over invoice is a good fair price to offer the dealer?

It's impossible to create a hard-and-fast set of rules because of supply-and-demand variation and margin differences, but the consensus of opinion, for vehicles in good supply and average demand, seems to be the following:

- For vehicles with MSRPs up to $35,000, $300 to $500 over invoice is a fair offer. Expect to end up paying more if the dealer decides to do some hard bargaining.
- For higher priced vehicles, up to $50,000 MSRP, $500 to $1000 over invoice would be a reasonable offer, more if the dealer digs in his heels.
- For MSRPs higher than $50,000, expect to pay at least $2000 to $3000 over invoice.

It's possible to find even better deals, in which you actually pay less than invoice. Dealers are often able to do this and still make a profit due to *holdbacks*, *direct-to-customer rebates*, and *factory-to-dealer rebates* which are special incentive payments made to the dealer by the manufacturer to help promote sales. When a dealer and/or customer are getting this kind of help from the car manufacturer, the sale/lease price can easily be less than invoice.

It is also helpful to know what other people are currently paying for the same kind of car that you want. See our article **What Should I Pay?** for more details.

**Know Where to Get Discounted Prices**

Most people don't like to negotiate with car dealers, and in many cases it's not necessary. The Internet allows you to "test" dealer prices without actually talking to a salesperson.

Here's how.

One of the easiest methods of "testing" dealers to find out how much they are willing to discount prices on specific vehicles is to use one or more of the free online car pricing services, such as **TrueCar** and **Edmunds.com** . Get quotes from multiple services so that you have prices to compare.

Go to each service and specify which vehicle you're interested in, and they'll give you price quotes from dealers in your area. The prices you get back might not be the absolute lowest that you could possibly negotiate for yourself (if you're really good), but it'll give you a good notion of what you can expect to pay. And if you like one of the prices, you've just saved yourself a lot of work and stress. Just go to the dealer, sign your lease or loan papers, and drive away.

See **Car Pricing Secrets - What Dealers Won't Explain to You** for more details on this topic.

### Look for Promotional Lease Deals

Car manufacturers frequently offer limited-time special lease deals that are usually genuinely good deals, although the deals might be limited to only selected models and styles, and may have other conditions. Before you visit your dealer find out if your vehicle currently is being offered with one of these special lease deals. See our **Best Car Deals** web site for more information. Also visit car manufacturer web sites to see lists of current offers.

See **Cheapest Cars to Lease** to learn which cars consistently make the best lease deals.

### Know How Much You Can Afford

Now that you know that vehicle price is key to leasing, and how to negotiate or find a great price, how do you know what price you can afford? Most people know how much they can afford to pay as a monthly payment but don't know how to translate that into a vehicle price. Our *Affordability Calculator*, a feature of our **Lease Kit**, can tell you. You tell it how much you can afford to pay monthly, and it'll then tell you the maximum vehicle price you should be aiming for.

Also see our article, **Don't Be a Payment Buyer**, for more information about how to negotiate selling price, not monthly payments.

### Summary

In summary, know your car, know your prices, know what you can afford, and know how leasing works before you set foot in the dealer's showroom.

# Finding Good Car Lease Deals

**What Makes a Good Lease Deal?**

How do you know a good lease deal when you see one? Where do you find the best deals?

Being able to recognize a good deal — or a bad deal — is an important part of successful automobile leasing. Just because a lease seems to have a low monthly payment doesn't make it a good deal.

Negotiating or finding a **low lease price** (cap cost) is an important part of a good car lease deal.

But so is getting a **high lease-end residual value**.

And a **low money factor** or lease rate. (see **Car Lease Rates Explained**)

And a **low acquisition fee** or bank fee.

**It's the combination of all of these elements that makes the best lease deal with the lowest monthly payment.**

It's possible, for example, to have a nice high residual and a not-so-good lease price, and still have a good deal overall. Or a low money factor might compensate for a low residual to make a good deal. All factors, in combination, must be taken into consideration when evaluating lease deals.

To the uninformed automotive consumer, a lease is nearly always seen as a good deal simply because the monthly payments are lower than loan payments for the same car.

This is how dealers want it, and it's why they emphasize monthly payments, not prices.

Consumers who get caught in a dealer's lease payment game will nearly always pay too much.

You can't simply look at monthly payments to evaluate a car lease deal. You could easily pay more than sticker price and still have what you believe are attractive monthly payments. This is the reason many people who are leasing today are overpaying, and the reason dealers love to lease.

Dealers count on a high percentage of their leases being based on **full MSRP**, or more — to uninformed customers who don't know any better.

So how do you know what is a good lease deal, and what isn't?

Those car leasing ads in the newspaper — are they great deals or not? How about the deal your dealer just made to you — is it a fair offer or a rip-off? How about that car-lease TV commercial you saw last night?

See our article, **Understanding Car Lease Ads**, for some answers.

### Lease Deal Analysis

If you're not sure what a good car lease deal looks like, how will you know when you see one? How will you recognize a bad deal? How will you know what deal to ask for when you're negotiating with your dealer?

It's extremely important to be able to quickly determine whether a lease deal is worth considering, based on the combined interaction of cap cost, cap cost reductions, term, residual value, and money factor.

For example, it is not sufficient to know that you are getting a great interest rate (money factor), or a discounted price (cap cost) — because your lease-end residual value may have been adjusted lower to compensate.

### Use a Lease Evaluation Calculator

You can do lease deal calculations and comparisons yourself, if you know how, or you can use the exclusive *Lease Deal Evaluator* calculator — a part of our optional **Lease Kit** — that enables you to easily size up any lease deal for any vehicle make and model. It bases its evaluation on the combination of all lease factors. It's a great tool that helps you equalize the odds in the game of leasing.

It's one thing to know what a good deal is, it's another to actually find one. Where are the good deals to be found?

### Where to Find Good Car Lease Deals

There are essentially three ways to find good car lease deals:

**1. Promotional Offers** -Newspaper, radio, and TV ads are prime sources for locating special promotional car lease deals, as are car makers' web sites. Car manufacturers frequently offer special limited-time subsidized, or *subvented*, lease deals on some of their models. They do this by discounting price and either boosting residuals or lowering interest rates (money factor), or both. The combination of all these elements makes for some great deals.

If you notice in newspaper ads that all your local dealers for a particular manufacturer are offering the same or similar lease deals, it's likely to be one of that manufacturer's subvented deals, and probably worth your serious consideration. Manufacturer-sponsored lease deals are nearly always genuinely good deals - better than a deal you could negotiate for yourself. Just make sure you like the car model being promoted and can live with any restrictions that may be specified in the small print of these ads.

You may also must have a **good credit score** to actually get the deal as advertised. Be sure you know your most recent credit score before you visit a dealer to lease. **What's your FICO score? Find out now when you check your credit report for $1 at Experian.com!**

**2. Car pricing services** - Get discounted prices from one or more of the popular car referral or pricing services now available on the web. We recommend **Edmunds.com**. You simply tell them what vehicle you want, they contact dealers in your area who have agreed to provide the best prices, and the dealers contact you to present their offers. It's best to ask for quotes from multiple dealers at the same time so that you'll have plenty of information to compare.

We also recommend **TrueCar.com** which is unique in that they not only show you the MSRP and dealer invoice price for the car you want, but also show you **what other people are actually paying** for that car — and then they give you an price savings guarantee. If you know what other people are paying, you'll know what price you should be aiming for when leasing.

**CarsDirect** is a little different in that they do most of the work for you. If you like their deal, you simply go to the dealer, sign your lease papers, and drive away. No haggling, no stress and strain.

This technique can get you the best lease prices when fully subvented deals are not available from the manufacturer for the vehicle you want. A highly discounted price combined with an average money factor and residual is still a good deal.

The **Best Car Deals** web site contains a list of current lease deals on many makes and models. The deals come from manufacturers who are placing special lease prices, high residuals, and low money factors on certain models. The deals are genuinely good deals but you should make sure you can live with the term (usually 36 months), annual mileage limit (usually 10K-12K miles per year), and the specified down payment, if any.

**3. Lease takeovers** can be the the single best source of low-cost lease deals. Online companies such as **Swapalease** list thousands of cars that are available from people who must get out of their leases due to financial distress. Since they already got good deals, you can inherit the same deals, with NO MONEY DOWN, low monthly payments, and possibly a CASH INCENTIVE. Pay a small transfer fee and the car is yours.

See **Cheapest Cars to Lease** for an explanation of how to determine which car makes/models make the best and cheapest lease cars. The best lease deals are not necessarily on the cheapest car, but the one with the highest residual value.

### Don't Forget Insurance

Lease finance companies require *full coverage* insurance, which might be more than you normally have had on other vehicles. Paying too much for insurance can offset your savings on a great lease deal. Since full coverage rates can vary widely between insurance providers, it's *always* a good idea to check different companies. **Get your free auto insurance quote from Esurance in minutes & start saving today!**

### Summary

Using these methods will get you good lease deals but it doesn't necessarily guarantee that you'll get the best deal possible. A little negotiating and haggling may still be required if you want a better deal.

# Negotiating a Car Lease

### How to Negotiate a Good Car Lease Deal

Some "experts" have suggested that you initially not inform a dealer how you plan to finance your car — that you should wait until a price has been established, then tell them that you want to lease.

Don't do it! It's old advice and it doesn't work well anymore.

Up front, let the dealer salesperson know that you want to lease, that you consider yourself informed about leasing, that you want to discuss selling price, not just monthly payments, and that you are not interested in playing games.

Let the dealer know that if you can get a good fair deal, you'll lease today. Otherwise, you're willing to walk out and find another car and another dealer.

The **three key advantages you have** and should use in any car lease negotiation are:

- **Your time to prepare and educate yourself about the car, prices, and leasing**
- **Your ability to shop around and find the best deal**
- **Your ability to walk away if you don't like a deal that's offered to you**

### Prepare to Negotiate

If you've already done your homework, this process will be as smooth as silk. If you haven't, the process could be long and painful, not to mention expensive.

First, you should **negotiate the lease price** (cap cost), having a specific target price in mind (see **How Much Car Can I Afford**). The lower the price, the lower your monthly lease payment. Don't let them tell you that price isn't negotiable in a lease. It's an old trick. Unless you're wanting a top-selling car that's in short supply, **price is always negotiable in a car lease**.

One of the most useful things to know when negotiating car prices is to **know what other people are paying** for the same car you want. Otherwise, you likely won't know what price you're negotiating for, especially if there are hidden incentives available. You can easily get this information at **TrueCar.com**, an invaluable resource for anyone buying or leasing a car.

Since a dealer only controls price, don't expect to get very far trying to negotiate residuals and money factor, which are controlled by the dealer's leasing company, for which the dealer is just acting as an agent. You can, however, ask if they work with other leasing finance companies who might offer better terms.

Next, you should ask about any rebates, advertised specials, factory-to-dealer incentives, or discounts that would reduce your capitalized cost. Tell them what down payment, if any, you would like to make and negotiate a fair price for your trade-in (you should already know its wholesale value). Ask about any acquisition fees, disposition fees, or other charges that would affect your cost.

**So You Got the Deal**

Finally, ask the dealer to calculate your monthly payment amount, less sales tax, based on all the figures that have been agreed upon. While the salesperson is gone to check with the Finance and Insurance (F&I) Manager to calculate the numbers (salespeople don't make these kinds of calculations), do your own calculations. When he returns, it's very important that you check their payment figure against your own.

Make sure you're using exactly the same cap cost, down payment (cap cost reduction), residual value, money factor, and term (lease months) as the dealer is using, and that you've included any extra costs that you are not paying up-front in cash. If there is a discrepancy, have them explain their calculations in detail, step-by-step. Often, the difference is a "mistake" or a previously unmentioned extra charge, a "hidden" fee, or you weren't given correct credit for your trade-in.

**When No Negotiations Are Required**

Now that you know the essentials of negotiating a lease deal, you should also know there are times when little or no negotiating is required.

When you find good lease deals being advertised in the newspaper, on TV, or on a car maker's web site, these are special packaged deals jointly sponsored by the dealer and the car manufacturer.

These promotional offers are nearly always good deals and usually require no further negotiating. In fact, even if you wanted to, negotiating is usually not possible due to the special conditions required to accept the deal. Typically, every element of a deal — lease price, term, money factor, residual, vehicle make, model, and style — is already set and can't be changed.

Most of these manufacturer "subvented" deals are better than you could negotiate yourself.

For a list of **current special lease offers** from car companies, see **Best Car Deals**.

What's the catch with these special deals? The only catch is that the deals may only be available on certain specific models and styles — and for only a limited time. If you like the model/style, fine. If not, you'll have to go back to getting your good deal the old fashioned way — negotiate for it.

## Car Lease Negotiating Tips

Following are some important tips that may help you in your car lease negotiations:

- Always negotiate price, never monthly payments (unless you know how monthly lease payments are calculated)
- Always negotiate UP from dealer's cost, not DOWN from the sticker price
- Never let the dealer tell you that lease prices are not negotiable
- Avoid telling the dealer what monthly payments you can afford – give him a price instead (unless you know how to calculate payments from price)
- Always come prepared knowing the dealer invoice price for the vehicle you want — use TrueCar.com
- Always come knowing what your trade-in is worth — use KBB.com or Nadaguides.com
- Never let the dealer tell you your source of invoice prices or trade-in values is wrong. Yours aren't wrong, just different than his
- Never, ever give the dealer a deposit to "hold" a car. The car will still be there when you get back.
- Never give the dealer a chance to "lose" the keys to your trade-in
- Don't sign a "purchase/lease agreement" until you've settled on a deal
- Never reveal your attraction to a vehicle ("I just love that car") during negotiations
- If you're not comfortable with the salesperson, ask for another, or leave
- Always give yourself the option of walking out if negotiations don't go your way
- Let the dealer know up front that you are knowledgeable about leasing (assuming you really are)
- If you sense the salesperson is playing games with you, ask them to stop or you'll leave
- Don't agree to extended warranties, credit insurance, security devices, or other overpriced add-on services
- Always check the dealer's monthly lease payment figures against your own figures — use our Lease Calculator
- Generally, it's best to deal at the end of the day, at the end of the month, on a weekday, on a rainy day, or any slow period
- Never negotiate when you are in a hurry, desperate, or have limited time to deal
- Never accept an offer to take a car home overnight before you've settled a deal
- If you have poor credit, never take a car home until your credit has been approved by the dealer's finance company
- If you become tired, confused, intimidated, or pressured during negotiations, come back another day

## Your Most Powerful Negotiating Tool

The most valuable tool in negotiating a car lease or purchase is ... **your ability to get up and walk out the door of the dealership** if you don't like the deal being offered to you. If the dealer has a better deal that he hasn't offered yet, he'll **come running after you**. If not, you know with some certainty that the last offer was his best deal. This is a very POWERFUL and incredibly EFFECTIVE negotiating tool. If you don't use it, you are cheating yourself.

## Summary

Negotiating a car lease is just as important as negotiating a purchase. The main factor that you can negotiate is price. Know your pricing information before you visit a dealer. If you can find advertised manufacturer-sponsored promotional lease deals, you don't need to negotiate — if you like the vehicle being promoted.

# Lease Signed – Now What?

### What Happens After You Sign Your Car Lease Deal

After you sign, your contract is sent by your dealer to the lease finance company for approval and processing. From this time on, any concerns or questions about your lease should be directed to the finance company, not your dealer. Go to your dealer only for issues related to your vehicle (service, warranty repairs, recalls, etc.).

If you've already leased prior to visiting LeaseGuide.com, you may want to find out how good — or bad — your deal was. The *Lease Inspector*, one of the features of the optional **Lease Kit**, will ask you to input the figures from your lease contract and then will tell you exactly what kind of deal you got.

### A Deal Is a Deal

If it happens that you decide you're not happy with your vehicle after you've signed your lease contract, there is no "grace" period or "3 day return policy" in which you can cancel the deal. This is the same regardless of whether you buy or lease. Once the contract has been signed, it's legal and binding. However, if you believe that mistakes have been made, contact the dealer and leasing company immediately.

If you absolutely must terminate your lease, the later you can wait, the better. Terminating early can be extremely costly. The *Lease Termination Guide* in the **Lease Kit** explains all your options and helps you to determine the best method.

### Careful About Moving Your Leased Car

If you plan to move during the time of your lease, be aware that many lease contracts may restrict you in some way. Most prohibit moving their vehicles out of the country. Check the fine print in your contract.

If you move with your vehicle to another state (which is typically not a problem), your payments could change up or down due to different sales tax rates between states. Always notify your lease company when you move so that they can make the adjustments.

### Hold Up Your Part of the Contract

Make sure you maintain your vehicle, keep the contract-specified amount of insurance, and make your payments promptly as specified in your contract. Purchase tags, registrations, and pay taxes as required by your local government. Don't make modifications to your vehicle, or fail to repair damages. Don't use the vehicle for illegal purposes, drive while intoxicated, or allow unlicensed drivers. Pay all fines and fees associated with the vehicle. Failure to do these things is a violation of your lease contract.

It's best to maintain your vehicle according to the schedule in your vehicle's owner's manual. It's not necessary to have the maintenance done by a dealer, but make sure it's performed by a professional shop that does quality work. Always keep records in case there's ever a question.

### About Insurance Coverage For Your Leased Vehicle

All lease contracts require that you carry insurance on the leased vehicle, naming the lease company as "additional insured." The level of coverage required may be more than you might otherwise carry on a vehicle of your own. Not to carry the specified amount of coverage is a violation of your contract. Typically, the amount of coverage is as follows:

- Bodily Injury - not less than $100,000/$300,000 (single/multiple people)
- Property Damage - not less than $50,000
- Combined Bodily Injury/Property Damage - no less than $500,000 per accident
- Deductibles - no more than $1000 for collision, no more than $1000 for comprehensive

### If You Have an Accident

In case of an accident, theft, or loss; you should immediately notify both your insurance company and the lease company. If the accident causes repairable damages, your insurance will pay for the repair of those damages, minus your deductible. Be sure to have the repairs done by a reputable shop that does quality work and uses "original equipment manufacturer" (OEM) parts. Otherwise, you may have to pay for the repairs to be done correctly when you return your vehicle to the lease company at lease-end.

If your vehicle is totally destroyed or stolen, the insurance company pays the lease company for the vehicle (remember, the vehicle belongs to them), minus the deductible, which you have to pay. The insurance only covers the current value of the vehicle, not the amount you still owe on your lease, which may be more. Unless you have GAP insurance, or your lease contract specifically lets you off the hook (see the small print in your contract), you have to pay the difference — possibly a large amount. Most modern lease contracts have a waiver clause that lets you off — but check yours to make sure.

Some states now have "diminished value" laws that require auto insurance companies to compensate vehicle owners for the lower resale value of the vehicle caused by an accident, even after repairs have been made. This payment should go to the lease company but, if you decide to purchase your vehicle at lease-end, the credit should come back to you. Contact your lease company to determine how they handle this potentially troublesome situation.

## Watch Your Mileage

During your lease keep a watch on your mileage so that you won't exceed your limit by the time your lease ends. If you have a 12,000 mile annual limit, for example, you should be driving no more than 1000 miles per month, on average, or a total of 36,000 miles for a 3 year lease.

If you find that you're driving too many miles, try to take action to bring it back in line to avoid having to pay for the excess miles at lease-end. You could try swapping vehicles for a while with someone who doesn't drive as much as you do. Or you could rent a vehicle to drive on vacation, rather than drive your leased vehicle. Or carpool to work. Or consolidate multiple short trips into one.

If you simply cannot stay within your mileage limits, just realize that automobile miles are not free, regardless of whether you're leasing, buying, or renting. Terminating your lease because you know you're exceeding your mileage limits is rarely ever a good decision. It'll be expensive and you'll still pay for miles you drive in any new vehicle you get. It's best to simply acknowledge that you have to pay for the miles and begin putting money aside for the eventual lease-end payment. Of course, if you decide to purchase your vehicle at lease-end, you avoid mileage fees altogether.

You can use our **Lease Mileage Calculator** to help you manage your mileage.

## What If You Get a Lemon

If you are unfortunate enough to get a vehicle that has never-ending problems and which can be classified as a "lemon," be aware that lease contracts, just like purchase loans, don't provide for returning the vehicle and getting your money back. However, most states, but not all, have lemon laws in place that apply to leased vehicles as well as purchased vehicles. Check with your state Attorney General's office to find out how it works in your state.

## Summary

For most people, car leasing is a problem-free, money-saving, and enjoyable experience. Most will choose to lease again with their next car. Many people who are leasing today have been happily leasing for many years.

People who have problems with leasing are generally those who didn't understand how leasing works before they leased, didn't do their homework, or simply were not good leasing candidates (e.g., drive too many miles per year). These people generally attribute their bad experience to the fact that, in their view, leasing is a "scam" or is a terrible way to finance a car.

# End of Lease Options

**Lease End Considerations**

It's never too soon to be thinking about the end of your lease. If you plan to return your car, be mindful of the miles you drive and the condition of the vehicle during the time you are leasing.

Many people who do a good job of preparing for the beginning of a car lease overlook the need to also prepare for the end of the lease as the time nears.

**Your Lease-End Options**

At the normal end of a car lease, you may have the following options:

- Return your vehicle
- Extend your lease
- Purchase your vehicle
- Trade your vehicle

Depending on the details of your particular lease situation, some of these options may be practical for you while others may not.

**If you need to get out of your car lease early**

To end your lease before its normal termination date could be costly and troublesome unless done correctly. You can't simply return your car and walk away in the middle of a lease.

You have a number of possible options, but choosing the right option for your particular situation requires a little homework. Choosing correctly also protects your credit history. Your lease contract explains your obligations, in not-so-simple language, if you decide to end your lease early.

Our **Lease Kit** contains a special section, the *Lease Termination Guide*, that can help simplify what can otherwise be a very confusing situation. It provides detailed explanations of all termination options, as well as examples and guidelines that you will need to make the right decision.

**How Normal Car Lease-End Works**

About a month before the end of your lease, you will be contacted by your leasing company. They will instruct you regarding having your vehicle inspected and returned to them. Normally, the return is made to a dealer, from which the lease company will pick up the vehicle. The dealer to which you return your vehicle does not need to be the same dealer from whom you leased, but the dealer should sell the same brand of car that you are returning.

See **Lease Return Inspection** for more details about car lease returns.

The lease company may also remind you of your option to purchase your vehicle and provide you a purchase buyout price, which may be a better price than the guaranteed price stated in your lease contract. They may also offer to extend your lease for specified terms. They won't tell you, but you may also be able to use your vehicle as a trade-in on a new lease or purchase. See **Trade Leased Car** for more details about using your leased car as a trade when buying or leasing a new car.

### Be Careful of Your Lease-End Decision

Don't make a quick decision about which lease-end option you'll take. For example, if you simply return your vehicle to the lease company without doing your homework, you may be handing them built-in equity value that belongs to you. They'll love you for the gift.

You should use one of the online used-car pricing web sites, such as *Kelley Blue Book* to determine the trade-in and sale value of your vehicle. If that value is greater than the purchase option price in your lease contract, you should consider trading your vehicle or buying it from the lease company to recover your equity money.

But what if you have exceeded your mileage limits or have some damage to your vehicle? Is it best to return, or to purchase? Can the mileage and damage fees be negotiated if you decide to return?

Is extending your current lease or re-leasing a smart thing to do? When is it advisable to use your leased car as a trade-in? Do you still have to pay for excess mileage and wear-and-tear?

If you decide to purchase, do you have to pay the lease company's purchase price? Is it negotiable? How do you determine what price to offer? Why do some lease companies refuse to negotiate? Does purchasing avoid paying mileage and damage fees?

### Getting Answers

If you need more help in making your lease-end decision, our **Lease Kit** contains a special comprehensive section, the *Lease-End Advisor,* that provides answers to all the above questions, as well as a detailed explanation of each of your lease-end options — and how to go about determining which option will work best for you, given your particular situation.

If you decide to buy your vehicle, this section of the Lease Kit tells you what to pay and how to deal with the lease company. If you're in a position to trade, it'll tell you how.

If you are over your mileage limits or have excessive wear and tear, this section tells you how to handle this common situation. In some cases it's better to return; in others, it's better to buy or trade.

If you think you might want to re-lease your vehicle, the *Lease-End Advisor* section of the Lease Kit explains how to determine if this is a smart choice and warns of some common problems.

If you decide to return your vehicle, this section of the Lease Kit tells you what to expect. It explains how to handle the inspection and return process to minimize the possibility of surprises from the lease company.

Again, this is all part of the *Lease-End Advisor* in our **Lease Kit**.

**Summary**

This concludes our Lease Guide series. However, the LeaseGuide.com web site contains more, much more, information, calculators, tips, advice, and answers to help you make smart car leasing choices.

Good luck with all of your car leasing, from the staff at LeaseGuide.com.