Lease vs. buy car: compare new car financing options to find the optimal

Abstract :

The problem that aims to tackle is while we don’t own a car that you lease, we’re still responsible for damages. If you return the vehicle damaged at the end of the lease, we’ll have to pay fees for what the automotive dealer deems excessive wear and tear. So, it is better to buy a car rather than leasing the car or we should provide the hourly/day lease offers with low price.

It is important to tackle because, if we’re looking to get a new car, you might consider leasing it instead of buying it outright. While car leases typically come with lower monthly payments, you won’t actually own the car. Buying a car, on the other hand, means you’ll be purchasing an asset, which can be worth making higher payments.

Introduction :

New or used vehicle is one of the most significant expenses individuals and families incur, other than housing costs.[1] Vehicles, whether leased or financed, are considered a typical cost of American life by many people. If you don't want to deal with an auto loan or you find it too daunting to save up for the full price of a car, you may want to consider leasing a vehicle. It is not for everyone, though.

Leases often are cheaper in the short term, but in the long run, purchasing a vehicle is generally less expensive. Weighing the pros and cons of leasing vs. buying a car will help you come to the decision that is right for you and your family.

What's the Difference Between Leasing and Buying a Car?

A car lease is a contract in which one party permits another party to drive a vehicle for a specified period of time in exchange for periodic payments, usually monthly installments. Unless your contract has the option to purchase the car at the end of the contract period, you must turn it back over to the lessor.

The difference between leasing a car and financing a car is that with financing, you are purchasing the vehicle. You will still make monthly payments, but at the end of the term, you'll own the car.

LEASING	**BUYING**
Lower monthly payments	Higher monthly payments
Return the car at the end of the lease	Keep the car
Better warranty protection	Post-warranty repair costs

Payments

A typical car lease payment can be significantly lower than your monthly payments would be if you were purchasing the same vehicle and financing it with a traditional personal auto loan. That's because lease payments are based on the depreciation in value of the vehicle over the course of the lease period instead of the vehicle's full value.

Ownership

Drivers can lease a vehicle that is nicer and more expensive than one they could afford to purchase. Leases generally run for two to four years, and when they expire, you are eligible to sign a lease on a new car. When your lease is up, you don't have to go through the time-consuming resale process. You can jump right into a new leased vehicle and leave the sales hassle to someone else.[23]

When you buy a car, you don't have to give it back when the loan is up. But if you want to get rid of it, you'll need to find someone to buy it from you.

Warranties

Your new leased vehicle will likely remain under warranty throughout the lease period and, therefore, will rarely require anything more than routine maintenance. With a lease, you never have to worry about any mechanical failures. No matter what, you’ll be covered.

When you buy a car, it may be covered under a warranty for a short time. However, unless you extend the warranty, you'll need to pay for all repairs out-of-pocket when it expires.

Which Is Right for Me?

Making monthly payments throughout the life of your lease requires a stable and predictable source of income. When you have a lease, it is harder to get out of the contract than it might be to sell a used vehicle.

Car leases typically have a stated (but negotiable) maximum number of miles that the lessee can drive per year, known as the mileage allowance. The standard mileage allowance for a private driver lease normally ranges from 10,000 to 15,000 miles per year. If a driver exceeds the mileage allowance, they'll be charged an additional fee per mile. If you do decide to take on the responsibility of a lease, make sure you read the fine print.

Although a lease has a lot of great perks, you'll often pay more in the long run for a comparable vehicle if you lease it rather than buying it. Leases often come with many fees and penalties. Upfront fees may include down payment, security, and license fees. Penalties may include default charges for late payments, fees for ending the lease before the agreed-to period, and wear-and-tear charges.[4]

Note

Simple things like procrastinating on regular maintenance can cost you a lot of extra money.

While selling a vehicle is seldom a money-making endeavor, you'll at least get something in return for your vehicle rather than walking away with nothing once your lease is up.[2]

When Buying Is Better

Buying may be the better decision if your goal is to minimize costs. When you buy a car, each loan payment goes toward owning your car outright. Most car loan terms are 4-6 years. After paying off your loan, you can drive the car without payments. You can also choose between trading it in for a new model or selling the vehicle. If you take good care of the vehicle, the resale value can help you recoup some of your expenses.[3]

Buying is also the better choice if you like to customize your car. The ability to do whatever you want, whenever you want, with your vehicle without the fear of additional fees is a great feeling. Even if you have a loan, the car is yours to do with as you wish. When you own your car, you can drive as much as you want and customize it to your heart's content.

If you drive a lot of miles, buying could be the right choice. You can drive as many miles as you want without worrying about penalties. There also are no wear-and-tear fees when your loan runs out, as there often are with leases.

As long as you are committed to driving your vehicle for an extended amount of time and have adequate car insurance coverage, you are unlikely to lose out financially.

When Leasing Is Bet

You can lease a car from a dealership, manufacturer, or leasing company. You are the lessee, and the company offering the lease is the lessor. Once you settle on a car, you apply for a lease, similar to the way you would apply for financing with an auto loan. A good credit score can help tremendously when attempting to lease a car.

Next is the negotiation stage. While some terms are set, others, like the interest rate (if you have a high enough credit score) and the length of the lease, are up for negotiation. After you come to an agreement with the lessor, you pay a downpayment, sign the contract, and drive off with a new car. It's worth noting that some car leases do not require a downpayment, depending on a number of factors.

While you have the car, you're responsible for maintenance and monthly payments. The lease contract determines how much maintenance and repairs you'll need to pay for. Some dealerships and manufacturers offer free routine maintenance to lessees.

When the lease ends, you return the car. You may pay additional fees if you damaged the vehicle or broke the terms of the lease. Some leases give you the option of buying the car at the end of the lease.

If you lease a car, you'll have to account for monthly car payments as well as multiple other important obligations. Signing a lease means you agree to pay the rent charge for each month of the lease term.

If you cancel the lease early, you'll be responsible for paying a disposition fee. The lease should either state a disposition fee or a calculation for determining it at a future date. In addition to the disposition fee, look for other fees you may incur if you end the lease early. The disposition fee may be equivalent to finishing off all the monthly payments.

Your lease will also include a statement of the car's residual value. This is the estimated sales price for the vehicle at the end of the lease. The current sales price subtracted by the residual value equals the expected amount of depreciation during the lease term. Higher expected depreciation is one factor in a higher monthly rent charge. The residual value is a factor in calculating fees for early cancellation or totaling the vehicle.

What is the 178 code?

The 178 code is simply a reference who will be on the vehicle driving licence. If your car or other vehicle is associated to a 178 code, you will be in the impossibility of:

- **Reselling your vehicle**: you won't be allowed to transfer the driving licence.
- **To cancel the driving licence**.
- **To cancel by yourself this 178 code**: the removal must be asked by the concessionary.

What is the point of the 178 code and who can register it?

This code is used for the leasing. Concretely, when you buy a lease vehicle this one **doesn't belong to you**! The concessionary demands then, that the vehicle driving licence be associated with a 178 code. This in order to protect himself in case of abuse. Indeed, the concessionary insures that the hired vehicle through a leasing can not be resold or transferred to a third part.

Cancelling a code

Since November 2013 the 178 code is from now managed by the ZEK society. The cancelling of the mention must be asked by the concessionary of the vehicle what is made generally at the end of the contract. It is however possible to make a lease repurchasing in order to become owner of your vehicle throughout a personal credit and therefore ask for the removal of the 178 code.

easing is defined as an arrangement, in which the lessor confers the lessee the right to use the asset in exchange for adequate consideration, i.e. periodical payments in the form of lease rentals for an agreed term. In this agreement, one party (lessor or leasing company) buys the asset and grants its use by another party (lessee) for a definite term.

Put simply, leasing involves the renting out the long-term asset by the owner, to another party for a regular consideration, payable over the tenancy period. Consideration refers to the lease rental charges, paid by the lessee at regular intervals, for using the asset, which constitutes income to the lessor. AS – 19 deals with leases, which prescribes appropriate accounting policies for both the parties. There are two types of leases:

- **Finance Lease**: Also known as the capital lease, it is a non-cancellable arrangement whose term is equivalent to the economic life of the asset. Under this type of lease, all the risk and rewards incidental to the ownership is transferred to the lessee however, the title may or may not be transferred. At the end of the specified term, the ownership of the asset can be transferred to the lessee, for a small amount, i.e. at a price which is less than the fair market value of the asset.
- **Operating Lease**: The kind of lease whose term is shorter than the economic life of the asset and the lessee has the right to terminate the lease by giving a short notice. Under this lease, the risk and rewards associated with the ownership of the asset are not transferred, and after the expiry of the specified term, the asset is returned to its owner.

Key Differences Between Buying and Leasing

The following points are substantial so far as the difference between buying and leasing is concerned:

1. The term buying is used to refer a process in which the seller transfers the ownership of the asset to the buyer, for the adequate money consideration. Leasing is an arrangement in which one party purchases the asset and conveys the right to use the asset to another party for periodical payments.
2. In buying, the parties involved are the buyer and seller. Conversely, the parties involved in the case of leasing are lessor, i.e. the owner of the asset and lessee, i.e.the user of the leased asset.
3. In buying, the value of the asset is the cost of owning the asset, while the value of leasing is the cost of using the leased asset.
4. In buying, the buyer has the right to sell or trade the asset anytime. On the contrary, leasing arrangement does not allow such freedom to the lessee, as the ownership of the asset lies with the lessor.
5. The consideration for buying the asset has to be paid in lump sum or equated monthly instalment for a specific term. As against this, the lessee has to pay lease rentals every month, so as to use the asset.
6. Buying is not restricted to a specified term as in the case of leasing. So, buying allows a person to use the asset throughout its economic life.

7. Once the buyer clears all the dues against the asset, he/she owns it. Conversely, at the end of the lease term, the lessee has two options, either to own the asset by giving a nominal amount or return it to the lessor. Although operating lease does not contain this option.
8. The repairs and maintenance of the asset are the responsibility of the buyer, in buying arrangement. In contrast, depending on the terms of agreement and type of lease the responsibility for repairs and maintenance is determined.
9. A leased asset is an off-balance sheet item. Hence it does not appear in the Balance Sheet. Unlike, buying wherein the asset bought is shown in the asset side of the balance sheet under the non-current asset.
10. The buyer of the asset enjoys the salvage value of the asset, because, he/she owns the asset. On the contrary, the lessee is deprived of the salvage value, because the asset is the property by the lessor.

Conclusion

We can say that leasing is an alternative to the buying the long-term asset, out of owned or borrowed funds. One can choose any of the two alternatives, but before that prioritise your requirements, i.e. if you need the asset for a long period, it makes sense to buy the asset because the equivalent annual cost (EAC) of owning and operating cost would be less than leasing it.

Therefore, check out the post-tax EAC of the asset, if it is less than lease rental, then buying should be opted, while if it is greater than lease rental, leasing will make sense