TITLE : 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.

Introduction:

On one hand, buying involves higher monthly costs, but you own an asset—your vehicle—in the end. On the other hand, a lease has lower monthly payments and lets you drive a vehicle that may be more expensive than you could afford to buy, but you get into a cycle in which you never stop paying for the vehicle.

I think it is important to tackle because leasing usually costs you more than an equivalent loan because you’re paying for the car during the time when it is most rapidly depreciating.

I am planning to develop a website to compare new car financing options to find the optimal in Leasing and buying a car. By developing this website, it will be easy for people to lease or buy a car. Due to severe market competition, people are opting to lease a car rather than buying a car. But, if you’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.

<u>BUYING:</u>

Pros of Buying a car:

- You are the owner of the vehicle you are buying
- Your car has a resale value
- You can modify and upgrade your car in any way you want.
- You own the car for as long as you wish.
- You can drive your car as much as you want as there is no minimum mileage limit while reselling the car

Cons of Buying a car:

- You have to pay the entire amount at once using cash, loan or financing which also consists of negotiated costs including cash price/down payment, taxes, insurance plus registration fee.
- You have to take care of reselling or trading your old car on your own.
- Your car will depreciate over time.
- You have to pay for the oil changes, accidental damages and maintenance of the car from your pocket.
- You have to own the car for a long term for it to be cost-efficient.

If you tend to get emotionally attached to your cars and hope to own it for the long term, buying a car is the best option. If you are taking a company car, have a business, are a professional e.g. Doctor/CA/Lawyer or need a new vehicle for a period from 2 to 4 years or a second vehicle , leasing is the best option.

For some drivers, leasing or buying is purely a matter of dollars and cents. For others, it’s more about forming an emotional connection to the car. Before choosing which road to go down, it’s important to understand the key distinctions. When you lease a vehicle, you're basically renting it from the dealer for a certain length of time. That's usually 36 or 48 months. Once your lease period ends, you have the option of returning the vehicle to the dealer or purchasing it at a pre-determined amount, which is defined in the lease contract. That's a lot different from buying a car. Buying it outright means you own it after the loan is paid off. Lease payments are generally lower than the monthly loan payments for a new vehicle. Monthly car loan payments are calculated based on the sale price, the interest rate, and the number of months it will take to repay the loan. The major drawback of leasing is that you don’t acquire any equity in the vehicle. It’s a bit like renting an apartment. You make monthly payments but have no ownership claim to the property once the lease expires. In this case, it means you can't sell the car or trade it in to reduce the cost of your next vehicle. However, there are advantages to leasing as well. They include: If you're concerned about the monthly costs, a lease eases the burden a bit. Generally, the monthly payment is considerably less than it would be for a car loan. Some people even opt for a more luxurious car than they otherwise could afford. For many people, there's nothing like the feeling of driving away in a brand new ride. If you're one of them, leasing may be the way to go. When the lease is up in a few years, you can return it and get your next new car. Many new cars offer a warranty that lasts at least three years. So when you take out a three-year lease, most of the repairs should be covered. Leasing arrangements largely eliminate the hazards of a significant unforeseen expense. With a lease, you simply return the car. The only thing you have to worry about is paying any end-of-lease fees, including those for abnormal wear or additional mileage on the vehicle.

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.

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