What we know:

Maria has $1,900 in savings.

The dealer has qualified her to either purchase or lease the car and she feels she can comfortable afford either payment.

To purchase the car:

The purchase price of the car is $14,900.

A 5% minimum down payment is required.

The sales tax rate is 7%.

The APR for buying the car is 6.15%.

With a minimum down payment of 5%, the monthly payment is $357.97.

License taxes and fees total around $500.

With normal driving, the car will be worth $6,495 after 4 years.

Due at Signing: Down payment, first monthly payment, and license taxes and fees

To lease the car:

The purchase price is $14,900.

A 5% Capital Cost Reduction Payment is required at the beginning of the lease.

The sales tax rate is 7% sales tax on the monthly payment amount only.

The APR for leasing the car is 6.15%.

The monthly lease payment, including sales tax, is $227.50.

The residual value at the end of the lease term is $6,495.

License taxes and fees total around $500.

With normal driving, the car will be worth $6,495 after 4 years.

Due at Signing: Capital reduction fee, first monthly payment including sales tax, and license taxes and fees

What Maria wants to know:

1. What is the total cost of buying a car over 48 months?
2. What is the total cost of leasing a car over 48 months?
3. What are the tradeoffs when considering leasing or buying?
4. Should Maria purchase or lease the car?

Solution Plan:

Buy vs. Lease comparison table. Fill in the missing numbers:

To Purchase		**To Lease**	
Actual Purchase Price = MSRP less any discounts.*		Capitalized Cost: (cost of the car)	
Down Payment 5%		Cap Reduction 5% (similar to down payment)	
Sales Tax Rate		Sales tax paid only on lease payments	
Amount Financed = Purchase Price + Sales Tax – Down Payment		Amount Leased = Purchase Price – Cap Reduction – Residual Value (dealer determined)	
Loan Term (months)		Lease Term (months)	
APR		Interest Rate	
Monthly Loan Payment	$357.97	Monthly Lease Payment including 7% tax and cost of money factor**	$227.50
Total of all monthly payments + down payment		Total of all monthly payments + cap reduction payment	

Residual Value / Equity Value at conclusion of loan		Residual Value at conclusion of lease	
Total monthly payments + down payment – residual value		Total payments plus cap reduction payment minus equity	
Taxes and License Fees		Taxes and License Fees	

* MSRP: Manufacturer's Suggested Retail Price

** Cost of Money Factor: Over the period of the lease, the dealer charges for the unpaid portion of the car value. The factor varies as government rates vary, but is locked in at the time of signing.

1. At the time of signing, roughly how much will Maria have to pay if she wants to purchase the car with the minimum required down payment? How much will she have to pay if she wants to lease the car? Can she afford the down payment for either option?

2. The salesman gave Maria a number of options regarding the size of her down payment and the resulting monthly payment numbers. Why does the monthly payment number go down when the down payment rises?

3. Which plan will require the least out-of-pocket cash after making 48 monthly payments: purchase or lease? How much less cash?

4. Compare the total costs for buying and leasing the car factoring in equity. Which is the better deal? Why?

5. If you plan to keep the car longer than 48 months, why would purchasing the car be a better financial decision than leasing the car?

6. When considering whether to lease or buy, ask these questions:

Question	Yes	No
Is driving a new vehicle every 2–3 years important to you?		
Do you want to drive a car that is relatively expensive considering your income?		
Do you keep your car neat, clean, and well-maintained?		
Do you drive less then 12,000 miles per year?		
Can you afford the monthly payment required to purchase, rather than lease, the vehicle that you want?		
Do you plan to keep this vehicle longer than 3–4 years?		
Do you want to make modifications to the vehicle (paint, engine modifications, exhaust system, etc.)?		

If you answered "yes" to the first four items on the table, a lease may be your best option. If you answered "yes" to the last three items, a purchase may be best.

7. Once you buy or lease a car, consider your ongoing operating costs. Estimate what these will be in our local area:

Insurance ____________________

State and local taxes ____________________

Vehicle Inspection fees ____________________

Fuel ____________________

Maintenance ____________________

Repairs ____________________