



### **Leasing Basics 101:**

When you lease a car, you are essentially renting it for a fixed term (2 or 3 years on average), in exchange for a monthly payment with a fixed interest rate until the end of the lease. Once your lease is up, you can usually 1) buy the car you leased, 2) trade it in for a new lease, or 3) buy a new car. (Tip: If you think buying the leased car at the end of the lease term is a possibility, make sure this purchase option is included in your lease agreement before signing.)

The cost of a lease will depend on the sales price of the car, interest rate, lease duration, and whether it is a closed-end or open-ended lease; you are essentially paying the differential between the initial price of the car and its residual value at the end of the lease term. (Tip: Always negotiate the lowest possible price on the car first, before negotiating any lease specifics.)

A closed-end lease imposes a total mileage limit, and you will incur a per-mile surcharge if you drive in excess of this amount. An open-end lease allows unlimited miles, however you must pay the difference between the agreed-upon resale value in your lease contract and the actual value once the lease ends and you return the car. For either type of lease, premature termination will typically result in considerable penalties.

Overall lease costs will include the following:

- Initial expenses, including a security deposit, first and last lease payments, a capitalized cost reduction (similar to a down payment, but usually much lower than the down payment required to finance a purchase), sales taxes, title fees, license fees, and insurance.
- Ongoing expenses, including monthly payments and scheduled maintenance and repairs. In a “maintenance lease”, the dealer will cover routine maintenance and repairs, but you will have to bring the car to the dealership and follow the manufacturer’s suggested schedule in order to maintain the warranty coverage (in case of any major repairs.) In a “non-maintenance” lease, you will be responsible for routine maintenance and repairs, however you are still required to follow the manufacturer’s schedule in order to keep the warranty in force. Either way, a lease may require a level of maintenance and time outlay to which you might not otherwise commit on a car you owned outright.
- Final costs, including excess mileage charges, default charges (any payments or security deposits owed to the dealer), and excessive wear and tear charges (including any cosmetic damage, such as scratches and dents.) Unless the lease agreement specifies otherwise, the dealer may also pass on to you any disposition charges, including the costs of cleaning the car and any final maintenance or tune-up that may be needed.