

# Auto Leasing

*Made Easy!*



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# 1. Introduction to Leasing

The concept of leasing is fairly simple, yet many automotive consumers don't completely understand. People are quite often skeptical and even afraid of leasing. A lot of people see it as being similar to a "rent-to-own" scenario but, for some reason, on a much more sinister level. There are even well-meaning but misinformed "experts" who are quick to advise against leasing, denouncing it as a scam, professing that it's a waste of money like renting or suggesting that it only really benefits the businesses.

While leasing certainly does have similarities to renting and rent-to-own plans it's far from sinister or cheating. In fact, leasing is a well-respected and common financial concept that has been used in the commercial world for decades as a method of financing buildings, equipment, and vehicles—although it is still relatively new to most automotive consumers.

Car leasing is not the same as renting, as many people mistakenly believe. Because many consumers still are not sufficiently informed, there have certainly been cases in which mistakes have been made and in which customers' lack of knowledge has been taken advantage of, sometimes fraudulently. But for every horror story that's told there are 1,000 success stories that don't get told. Think of it this way: If you buy an item from an online store, are you more likely to give that item a review if you have a good experience with it or a bad experience? If you loved the item and enjoyed it then you probably don't care about the online store and likely never thought to review the item. If you had a bad experience with the item you're very likely to want to let everyone know about it and have the problem resolved by the manufacturer or store; you'll be far more likely to leave a review. Thus the horror stories are more commonly publicized simply because more people are willing to tell them.

## **Common Misconceptions**

Understanding how the process works is the absolute secret to successful auto leasing, as it is with any business transaction. You have to take the time to properly prepare yourself before making decisions and learn to use leasing to your benefit rather than to your disadvantage.

Can you make serious mistakes and end up significantly overpaying or even be cheated? Only if you lack a basic understanding of leasing concepts, knowing how to get a good deal, and knowing how payments are figured. Master those concepts and you'll have a much easier time making a good deal.

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. 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.

Many of the best car deals around have all but disappeared—especially since car manufacturers started offering financing with extremely low rates to entice potential buyers. All the same, leasing is still an attractive alternative to buying a new vehicle for many motorists. Half of all luxury cars and about 20% of all cars are currently being leased.

For many people, leasing a new vehicle every two or three years would be more expensive than buying one and keeping it after the final payment. Then again a lot of people are happy to lease a vehicle they could never afford to buy, even if it doesn't necessarily save money—hence why so many luxury vehicles are leased.

Leasing has two principal benefits:

1. You can drive a newer vehicle that is always under warranty and seldom needs more than routine maintenance, and
2. You can often get a larger, more luxurious, better-equipped car. Car dealerships like leasing because the customer-loyalty rate is three times as strong as it is with buyers.

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, 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 advertised 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. A local dealer who has the car you want will contact you and confirm the price. That will be the price your lease will be based on. For comparison, you can also get price quotes from Invoice Dealers. Getting free quotes online is an excellent way to bypass the annoying price haggling in a dealer's showroom.

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

## **The dealer is not the leasing company**

The car dealer simply acts as an agent for the leasing company 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. For this service, the leasing company usually pays him a commission, which adds to his profit on the deal. Once the contract is signed, your relationship is with the leasing company, not the dealer, unless it's an issue with the vehicle itself.

Leasing companies used by dealers are usually subsidiaries of the car manufacturer (called "captive" leasing companies), such as Ford Motor Credit or General Motors Acceptance Corporation (GMAC). However, dealers can also offer leases from banks and other lending institutions with whom they've worked out mutually beneficial business terms.

So, automobile dealers are in the business of providing automobiles; leasing companies, banks, and credit unions provide leases.

## **You can find your own leasing company**

As a leasing consumer, you have the option to shop for your own leasing company, bank, or credit union to find better lease terms than the dealer's leasing companies can offer you. These independents can often arrange to get you an even better price due to fleet purchasing arrangements. The tradeoff is that dealers make it very convenient to arrange for both the vehicle and the lease all in a single meeting, and the dealer's captive leasing company can often offer special lease terms to help the dealer move vehicles.

## **What it means to lease**

When you sign a leasing contract you're agreeing to make regular monthly payments, keep appropriate insurance, pay vehicle taxes, pay licensing fees and take good care of the vehicle. You're also agreeing to keep the car for a specified number of months—typically 24, 36, or 48 months—and you're expected not to try and end that agreement prematurely.

At the end of the lease you're expected to return your vehicle to the leasing company with only "normal" wear and tear. You'll have to pay for any damage or extra mileage over and above your contract-specified limits.

You may have an option to purchase your vehicle at lease-end for a specified price, if you choose. Or you may be able to use the car as a trade-in on a new car. Otherwise, you can simply return the vehicle to the leasing company and walk away. Be careful, however, because you might just have equity value in your vehicle that you don't want to simply give back to the leasing company.

Making the best decision about what you 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 tradeoffs.

## **The Basic Facts**

Keep these points in mind when you're deciding whether or not a lease is right for you.

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 at right). For actual detailed comparisons, see 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 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 less than buying.

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 immediate objectives that are more important than long-term cost savings.

# Know When To Buy & When to Lease

First and foremost let me say this right now: You shouldn't consider leasing an automobile unless you have an understanding of car leasing fundamentals and how it works. Don't lease if you don't understand it. Understand how car leasing works and it can work for you. Until you're absolutely sure that you understand how car leasing works, don't waste your time with it. You wouldn't jump in a lake if you didn't know how to swim and you shouldn't lease a car unless you know how to either.

Here's the basic formula for deciding if you want to lease or buy:

- **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 and 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, prefer to build up some trade-in or resale value (equity), like the idea of having ownership of your car, prefer 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, expect lifestyle changes in the near future, and don't like the risk of possible lease-end charges — then you should buy.

Leasing a car isn't right for everyone. It is most beneficial to those who claim their car or truck as a business expense. Nearly all leasing

expenses attributed to business purposes can be deducted. If you can deduct vehicle costs for business, consult a tax advisor to find out which is better for you. Nothing is perfect, and leasing does have pitfalls. Unlike an outright purchase, you'll have no equity in the vehicle at the end of the payment period. This virtually guarantees that you'll be buying or leasing another vehicle once the lease is up. For consumers who are content with leasing, of course, that's a benefit rather than an obstacle.

Also, leases come with strict mileage limitations, usually 12,000 to 15,000 miles per year. If you exceed the total allowed miles by the time you return the vehicle, you'll be assessed a penalty—which could be as stiff as 25 cents per mile. However, if you know or suspect that you'll be putting on additional miles, you can usually purchase extra miles in advance at a discounted rate.

If you tend to be hard on your vehicles, purchasing is probably a better way to go. Why? Leased vehicles must be returned in excellent condition, without dents, deep scratches, window cracks, or torn upholstery, and with all accessories in working order. Otherwise, you'll be assessed "excessive wear and tear" fees at the end of the lease period, and these can be steep.

If you're uncertain about your financial future, leasing might not be right for you, either. Once you enter into a lease, it's binding for the entire length of the agreement. Terminating the agreement is nearly always difficult and expensive. If you decide you want to get out of a lease in order to lease another vehicle, you might be able to have the first lease "bought out" as part of the deal. If you simply want out, you will probably be assessed a hefty termination fee designed to keep people from trying to break their leases.

## **Why is car leasing popular?**

There are two large factors that positively affect the popularity of leasing today. The primary one is that new car prices have rapidly increased over the past decade or two and the prices are often far beyond reach for the average buyer. The second reason is that increased cost of housing, food, and other necessities of life have left less money in the monthly budget for transportation; the cost of living has dramatically increased over the past 50 years and even though it's supposed to be offset by minimum wage and other factors; the fact remains that unemployment is extremely high and even though there's a minimum wage there are no minimum hours. Millions of people work less and make less so buying a car at all is starting to become a luxury. Because of these factors, people have become increasingly eager to find ways to make personal vehicles more affordable.

Auto manufacturers and finance companies have come to the rescue in a big way with consumer car leasing programs. These programs are simply modified versions of business leasing that have been around for years. 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

## **Leasing a Car vs. Buying a Car**

Here is an example of how the costs of leasing and buying a vehicle break down:

In this example, we compare the cost of purchasing a vehicle with a 36-month loan at 6.75% to what it costs to lease the same vehicle for 36 months. These are based on real rates but for simplicity's sake I've omitted taxes, licensing fees and a few other details. This is just to give you a general overview comparing leasing a car and buying a car.

### **Purchase Price**

Lease = \$33,595

Purchase = \$33,595

Leasing doesn't change the fact that a vehicle is being purchased. Just like buying a car, the actual price of the car can, and should, be negotiated. For simplicity's sake, our example will sell for retail price. This is not far from real market conditions. Neither option has an advantage here.

### **Down Payment**

Lease = \$2,000 Purchase = \$6,719 (20 percent)

If you can't come up with the down payment, leasing looks pretty good right now. Getting the best interest rate on a new-car loan usually means coming up with 20 percent of the purchase price as a down payment. Of course, many new car buyers have a trade-in to offset this expense, something a repeat lessee would not have. Note that in this example the lease down payment includes the first month's payment. Right now the Lease has a slight advantage.

### **Monthly Payment**

Lease = \$359 Purchase = \$825

Advantage: Lease. Leasing looks really good now. Paying for only a fraction of a vehicle has its advantages. Don't forget, this example is based on a 36-

month lease versus a 36-month loan. Many shoppers will opt for 48-, or 60-month loans to reduce their payments, though this will increase total costs because of the interest. However, a direct comparison with a longer loan is difficult, as leases greater than 36 months are rarely available.

### **Totals after 36 Months**

Lease = \$14,565 Purchase = \$36,419

If keeping money in your wallet is your primary goal, so far this lease is working for you. The buyer is out two and half times as much money as the lessee.

### **Residual Value of Vehicle**

Lease = \$0 Purchase = \$23,701

You probably saw this coming. As a lessee, you were not putting equity into the car. The buyer, though taxed by higher monthly payments, now has some serious equity in the vehicle. This is money that can be used as a down payment on another new vehicle. Purchasing gains a huge advantage here.

### **Real, Final Cost**

Lease = \$14,565 Purchase = \$12,718

Here's the real bottom line. The lease would have saved you a lot of up-front cost, but counting the value of the vehicle, our purchaser is now almost \$2,000 ahead.

# So, How Do I Lease?

The basic allure of leasing a car is that you don't have to pay for or finance the entire cost of a vehicle. You're simply paying for the use of that vehicle for a specific period, often two or three years or as long as five or six years. It's not exactly renting, but the principle is similar. Evaluating a lease is a matter of basic arithmetic.

You need to consider four factors:

- Total initial payment, including down payment and any extra fees
- Amount of each monthly payment
- Number of months in lease terms
- Possible additional charges at the end of the lease

With a lease, your monthly payment is based on the difference between the vehicle's transaction price (its "capitalized cost") and what it's estimated to be worth at the end of the lease term (the "residual value"). This difference is financed at a particular rate of interest (which may be called a "lease rate," "lease charge," or "money factor").

Typically, your down payment and monthly charges will be lower with a leased vehicle than one purchased outright. That's why you can usually obtain a better vehicle for the same cash you put down. You might need nothing more to secure a lease than the first month's payment and a security deposit, which is usually about one monthly payment. Details vary sharply, though. Many lease deals require a substantial down payment and possible additional charges.

Nothing affects lease terms more than your credit score. The alluring terms seen on TV commercials are available only to customers with a top-



notch credit history. So-so credit means a bigger down payment and/or higher monthly payments. Poor credit generally means no lease at all.

In any case, when the lease period is up, you simply return the vehicle to a dealer without having to worry about a trade-in or selling it to a private party. Provided that the vehicle is returned in good condition, you owe nothing more; but you own nothing, either. Most leases give you the option of purchasing the vehicle at the end of the contract at a predetermined price. If you really like the car, that's a possibility. However, this is often more expensive over time than buying it outright.

Many dealerships use their own in-house finance company.

Many dealerships use their own in-house finance company.

## **How to Shop Around for a Car Lease**

Just as it pays to shop when you're buying a car, it's also wise to shop around for a lease. Make a few dealers compete for your business. Some dealers will waive the down payment or reduce your monthly payment so that they can get your business; some dealers won't negotiate at all. Never feel obligated to go with a deal. Resist the temptation to try and please everyone and don't be afraid to walk out of the dealership and away from any deal that's less than excellent.

Make sure you compare costs for identical vehicles. A lease with low monthly payments and a hefty down payment might cost more overall than one with higher monthly payments but no money down. Do the math, and consider the total amount that you'll be paying -- both now and over the lease term.

Naturally, new-car dealers are a logical place to start your shopping, but there are alternatives. Leasing agents or brokers that lease several brands might beat the deal from the new-car franchise down the street. Some banks and credit unions also offer consumer leases.

If you lease from a dealer who uses an in-house finance company like Ford Credit or GMAC, at the end of the lease you generally can leave the car with any dealer who sells the same brand. This may not be the case if you lease from an agent or broker, or if a dealer uses an independent leasing company. Be sure to ask—just to be prepared.

## **Overview**

### **Lease Advantages**

- Lower Monthly Payments. You only pay for depreciation during the term, monthly payments are 30%-60% lower than car loans
- Easy Software Tools Help You Lease Smarter. Expert Lease Pro help you make smart car leasing decisions
- Great way to establish credit. If you are a first time buyer or have bad credit, sometimes auto leasing is the only way a dealer can get you financing
- More Cars, More Often. With lower payments, car leases allow you to get more car for your money and drive a new car every three years
- Fewer Maintenance Headaches. If your lease term coincides with the manufacturer's warranty, major repairs are covered by the warranty
- Lower Up-Front Cash Outlay. Supposedly. Car leases should require little or no down payment, but some dealers require \$2000-\$7000 down. You can walk out if you don't like it
- Just walk away at the end! Closed end leases have no hassle at the end. You turn in the car, pay an end of lease disposition fee, and walk away

## Lease Disadvantages

- Selling price is usually MSRP. Some dealers try to hide this value from you during haggling or during speed signing, diverting your attention to low monthly payments.
- Fees to get in, fees to get out. Usually have Dealer Acquisition fees (leasing company fees) most car leases I see have \$500 to \$700, plus \$400 disposition fees at end of the car lease
- Confusing finance Charges. Some dealers try to confuse you and lie about the money factor and often they won't even tell you the money factor!
- Some dealers refuse to itemize your trade-in. Dealers are not required to itemize trade-ins, buyers who trade in, may not get credit for it, get ripped off
- High insurance costs. Leasing companies usually require you to purchase minimum insurance policies of \$300,000, more than most people normally buy
- If you lease the car you may not get the rebate. Some unrepeatabe dealers sneak out of giving you a rebate, increasing your cost \$500-\$1500, or \$13-\$42 monthly, so make sure you get it
- Misleading dealer lease ads. See that \$275 per month BMW ad? There's a tiny stock number of the only car there at that price. Gone by time you get there
- Long-term cost of leasing is more than the cost of buying: Back to back leasing always costs more than buying because of all the fees
- Misleading car lease sales tactics. Some dealers perform an "analysis" of Buy vs. Lease, always showing leasing as cheaper. Always check their numbers
- Those Nasty Mileage limits! Most leases we see limit you to 12000 miles/year.

- You are responsible for program maintenance. Keep good records of oil changes, tune ups, etc. and do them per schedule or you'll pay excess wear & tear
- Some car leases have large upfront fees: Even ads touting \$0 down have some fees up front. Down payments create the illusion of lower monthly payments
- All 4 tires must match! This is in every car lease contract. Car leasing companies charge you for mismatched tires, full MSRP, but you can get it cheaper in tire shops
- Excess wear and tear clauses: They often nitpick when you bring the car back, finding ways to keep your "refundable security deposit" for excess wear and tear
- Accidents may trigger early termination: Your lease is "terminated," and you're obligated to pay off the lease. Insurance covers damages, but not lease payoffs.

# Taxes, Credit and Payments, Oh My!

## Taxes & Leasing

Most states tax only your monthly payment. But some states tax the full amount of the car even though you are only using up just 50% of the value before you return the car. Even worse, if you buy the car at the end of the lease, you again pay sales tax on that residual amount! While Texas does levy taxes on the FULL VALUE of leased vehicles a law EXEMPTS owners of these vehicles from paying taxes if they are primarily (more than 50%) a "personal use" (not used in the production of income) vehicle. Here is the link to the Texas tax code concerning property taxes.

## Hidden Pitfalls

The "purchase price" of your leased vehicle is critical! The higher it is, the higher your lease payments and the dealer makes more profit.

A large cap cost reduction (down payment) hides a bad lease.

Many dealers require huge down payments at inception. The fine print in a BMW ad listed fees and down payments totaling \$5289! I thought the idea of auto leasing is little or no down payment. On the BMW lease ad, they divert your attention to the low monthly payment of \$275, but let's add up how much the entire lease is costing us. You must amortize the \$5289 down payment into the 30 months of the lease. This means your effective average monthly payments during the 30 month lease will be  $\$275 + \$5289/30 = \$451$  See what I mean? They mislead you into thinking your monthly payments are only \$275, which is right, but it's actually costing you \$451 because you are only focused on the low monthly payment.

Zero Down does not mean you owe "zero". It just means you don't have to put money down up front.

Some dealers mislead you "\$0 down payment" ads. Your brain makes you think you don't have to put any money at all down, when in reality, it means the down payment part of your inception costs is \$0. Confused? Remember, their definition of down payment is cap cost reduction. The other fees due at closing (i.e. dealer fees, acquisition fees, bank fees, add up to over \$1000. So "0 Down" does not mean zero down. They can shift fees to the end of the lease in the form of disposition or termination fees, or into the cap cost. Closing costs should always be used in the calculations to tell you how much the entire lease will cost you.

It's a bad idea to lease a new car if:

- There is a chance you'll end the auto lease early
- You are upside down on your current car lease or loan
- You plan to have kids next year and will need a different car
- You drive more than 12,000 miles a year or you're a salesperson always on the road
- You plan to move out of state. Most car leasing companies don't want their cars leaving the state, call them and ask
- You mistreat cars, you'll pay dearly in excess wear and tear fees at the end
- You live in states that tax you up front on the entire cap cost instead of pay as you go tax on monthly payments
- You want to customize your car, make modifications, or paint it
- You love owning cars, paying off your loans and driving cars into the ground like me
- You don't completely, 100% understand leasing when you finish reading this guide

If you cannot fulfill every single payment of a lease, you should not be leasing. Before signing a lease, be sure you are doing the right thing. Are you going to have kids next year and need a different car? A lease is a contract and if you break this contract, the penalties are stiff. You can have your credit rating tainted, meaning you'll pay more for your future cars, and higher interest. The lessor can sue you for breach of contract. Usually they just quote you the early termination penalty, which you are stuck with. There have been successful lawsuits against lessors accused of padding the early termination penalty, because you can't verify if the penalty is correct.

## **Your Credit Score & Leasing**

Your credit score is the single most important factor determining whether you'll get approved for a car loan, and what your APR will be. If your score is low, you'll pay extremely high interest rates on a car loan, up to 23%. Most people are also unaware that their credit score also affects how much you'll pay for car insurance rates too. Maintaining your high credit score should be an ongoing process, not a task you rush into when buying a car. In fact, that's the worst time. The reason is banks will reject you if you have disputed any item on your credit report, until it resolves in 30 days. It can take 60 days to clean up your credit score, so don't apply for any new credit until all disputes are resolved and you verified the FICO Score. You have been warned! I have seen people get rejected for applying while closing accounts. Right now, you should be asking yourself "How good is my credit score?"

Many people think "I've never missed a payment. My credit is perfect, my score must be high!" This could not be more wrong. Many people get upset when after their credit score came in low. Paying on time is one of the best things for your FICO score, but it's only one of over 100 variables making up your credit score. But people with good credit tend to have too much credit

and too many old accounts still open that they never use. Lenders view that as a risk. When I got my score it was ok, but needed improving by closing half a dozen computer store and department store cards I no longer used, they were dragging down my score. Steps you need to take before you apply for a car loan:

- Get your credit score and credit history
- Close old accounts, they are excess luggage, but keep your oldest account open.
- Get all balances way below the 30% credit limit mark
- Remove address errors or other clerical errors from your credit file
- Try to get "Charge Offs" removed from your credit file by asking your creditors nicely. Sometimes it works
- Wait until your score goes up before applying for a car loan, or lease financing



# Lease Negotiation Tactics

Keep in mind that when you lease a vehicle, just as when you buy one, its cost is negotiable and based on a variety of factors. The lower the total price, the lower your lease payments will be. To keep costs down, choose a model that has a higher resale value. Consult a used-car pricing guide to see how well a vehicle's value has held up historically, or ask the loan department of your bank or a leasing company to compare new vehicles' residual values.

Many libraries carry the "Residual Percentage Guide" issued monthly by "Automotive Lease Guide." Charts estimate how much each vehicle will be worth after a specified period of months as a percentage of the car's original selling price. This gives a clear picture of which vehicles hold their value best and are therefore prime candidates for leasing. Avoid those with low residual value, because lease terms are certain to be more costly. If a manufacturer is trying to promote a specific model, its lease terms might be even more favorable.

A few years back, manufacturers were sub-venting leases, absorbing part of the cost by setting artificially high residual values in an attempt to get more vehicles into shoppers' hands. This tactic resulted in substantial financial losses, so automakers nowadays are more wary about residuals and subvention of this sort is less common. However, advertising campaigns often stress the lowest-cost lease deals, some of which are based on tempting interest rates.

## **Understanding the Fine Print of a Car Lease**

Before you sign the lease, make sure that you read and understand everything on the page. Federal regulations require certain facts to be disclosed on lease agreements, including the capitalized cost, interest rate, up-front fees and taxes, any credit provided for used-car trade-ins, the vehicle's residual value and the amount to be depreciated. Most leases contain an acquisition fee, which typically ranges from \$250 to \$450, and a disposition fee, which likely adds another \$300 or \$400. A contract may also include a purchase-option fee that allows you to buy the vehicle at the end of the lease for a predetermined price.

Look for a detailed description in the contract of what constitutes "excessive wear and tear," and some indication of what you could be charged for this at the end of the term.

If it's not already included in the lease package, you will be offered "gap insurance" (guaranteed asset protection). This covers the remainder of your lease payments if your leased car is stolen or totaled in a wreck. Even if it's not required, some lessees feel more comfortable if they have a "gap" policy in effect.

Most leases prohibit customizing vehicles with aftermarket accessories such as vinyl tops, exterior trim, and even trailer hitches. Ask before you install such items. The consumer typically pays for sales tax, annual vehicle registration fees and taxes, maintenance, and insurance. All of this should be spelled out in the contract, but find out which portions will be included in your monthly payments and which ones you'll have to pay separately. Some states and municipalities permit dealers to charge specific extra fees, which may not be negotiable. All others can be challenged.

# Take Over a Lease Instead

The 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.

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 jobs or suffering other financial distress. Most lease companies allow those leases to be transferred to someone else by simply paying a 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 upfront 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.com](http://Swapalease.com) act as match-makers between people who want out of a lease, and people who want to take over a lease. [Swapalease.com](http://Swapalease.com) is the largest online lease marketplace and have the largest inventory of lease takeover vehicles. Look over the vehicle listings and if you find a car you like, they help arrange the lease transfer with the lease company; it's easy and fast.

# Getting Auto Insurance

After all is said and done, regardless of whether you're leasing or buying, you're going to need to get your car insured. This is an extremely tricky and somewhat annoying process, unfortunately. You can't drive a car off the lot unless it has insurance, but you need an actual vehicle to get insurance in the first place. To make things work you need to be able to communicate between your insurance company and your car dealer (and your leasing company); your insurance company needs the information for your car and your car dealer needs the proof of insurance to seal the deal.

Let's take an in-depth look at how getting car insurance works and what type of insurance you're going to need depending on your situation. The focus of the book is leasing a car so you'll have very specific insurance need but it seems a shame to only provide partial information so this chapter will cover all different insurance scenarios for your convenience.

If you've owned your own car before, you probably already know a little about car insurance. You may have heard the words deductible or premium. But, do you truly understand the different parts of an auto insurance policy and do you know how to choose the best coverage?

Forty-seven states require that you have at least some kind of car insurance, so it's a good idea to know what the law requires you to have and what additional or optional coverage will help to protect you in the event of an accident.

Before purchasing auto insurance, you must consider a variety of factors including what kind of car you have, your driving record and the amount of money you are willing to pay. Understanding the simple basics of auto insurance will make you confident that the car insurance policy you choose will take care of your needs in the event of an accident.

In this chapter, we will walk you through the types of coverage that insurance companies offer and discuss possible insurance needs. Additionally we will look at what affects the price of auto insurance, how to bring the costs down and how to understand the components of your policy.

## **Types of Auto Coverage**

If you're going to be leasing a car then pretty much plan on needing full coverage insurance (described below). For the sake of providing accurate information and for your convenience, I've including all types of auto insurance. Everyone who drives needs car insurance; in fact, most states require it by law (All but 3 of them). When you buy car insurance, you are buying what is called a **policy**. Your policy is based on a variety of factors including what kind of car you drive as well as what kind of insurance you want. Auto insurance policies are actually a package of different types of insurance coverage.

The first step in understanding an auto insurance policy is to learn the various types of coverage insurance companies offer. Some of this coverage may be required by your state and some of the coverage may be optional.

- **Liability** - This coverage pays for accidental bodily injury and property damages to others. Injury damages include medical expenses, pain and suffering and lost wages. Property damage includes damaged property and automobiles. This coverage also pays defense and court costs. State laws determine how much liability coverage you must purchase, but you can always get more coverage than your state requires.

- **Collision** - This coverage pays for damages to your vehicle caused by collision with another vehicle or object.
- **Comprehensive** - This coverage pays for loss or damage to the insured vehicle that doesn't occur in an auto accident. The types of damages comprehensive insurance covers include loss caused by fire, wind, hail, flood, vandalism or theft.
- **Medical Coverage** - Pays medical expenses regardless of fault when the expenses are caused by an auto accident.
- **PIP** - Personal Injury Protection (PIP) is required in some states. This coverage pays medical expenses for the insured driver, regardless of fault, for treatment due to an auto accident.
- **Uninsured Motorist** - Pays your car's damages when an auto accident is caused by a driver who doesn't have liability insurance.
- **Underinsured Motorist** - Pays your car's damages when an auto accident is caused by someone who has insufficient liability insurance.
- **Rental Reimbursement** - This type of coverage will pay for a rental car if your car is damaged due to an auto accident. Often this coverage has a daily allowance for a rental car.

Many insurance policies combine a number of these types of coverage. The first step in choosing the insurance you want for your car is to know the laws in your state. This will tell you the minimum insurance you need for your car. It's good to keep in mind that, just because your state may not require extensive insurance, extra coverage may be worth the expense. After all, no one wants to be stuck with thousands of dollars' worth of bills because of an auto accident.

## **What Type of Insurance do You Need?**

Just because your state requires a minimum amount of insurance doesn't mean that's exactly what you should purchase. In fact, most motorists purchase more coverage than their state requires so that they are covered for a variety of problems -- not simply a fender bender. In order to better determine your auto insurance needs, consider these five guidelines:

### **Clarify Your Options**

There are a lot of car insurance options; but knowing what you most likely will need is the key to making sure you are appropriately covered. Do you want coverage for a rental car if your car is damaged? Do you want an extended warranty to pay for parts and labor if your car breaks down? If your car is leased, you will probably need gap insurance which pays for the difference between what your insurer pays and what you owe on your lease if the car is completely totaled.

### **State Laws**

Keep in mind that 47 US states require that you purchase liability insurance. Liability insurance is what pays for bodily injury and property damage that you cause another driver. Fifteen states including Florida, Maryland, Michigan, Massachusetts, New York and New Jersey also require that you buy Personal Injury Protection (PIP). This coverage pays for your medical expenses and lost wages in the event of an auto accident. Your insurance minimum will most likely be determined by state law, but many people are encouraged to purchase more than is required.

### **Have a Budget**

If you know your state laws and have examined your personal needs, now you can put together the different pieces of auto insurance coverage in one total policy. The first piece of the policy is almost always liability insurance. If you only have minimum liability coverage and you injure someone, their

attorney can go after your personal assets. So, you need to know your assets and what you can afford to lose in the event of an accident. Many insurers feel that minimum liability is a gamble. In fact, that is why it is often only a little more money for more protection. After all, if you do get into an accident, it is much better for the insurance company to be responsible than for you to be personally responsible.

Remember to run through various scenarios such as if I totaled someone else's car, will my insurance cover it? How much will I have to pay out of my own pocket? The answers to these types of questions will determine what coverage makes you feel most confident should an accident happen.

### **Know Your Vehicle**

If your car was totaled, would you be able to afford to replace it? If not, you will want comprehensive and collision coverage. The decision to buy this coverage is usually based on the value of your car. Guidelines usually suggest that if your car is worth less than \$2,000, it won't be worth it to buy comprehensive and collision. If you own a \$50,000 car though, it would most certainly be worth it to pay an extra \$200 annually or so to insure that your car will be replaced if you get in a serious accident.

### **Know About Your Other Insurance**

Many people don't realize that other types of insurance including health insurance and homeowners insurance may pay for damages due to an auto accident. For instance, if you have comprehensive health coverage, you probably won't need more than the minimum required Personal Injury Protection (PIP). Make sure you know what insurance coverage you already have so that you don't purchase unnecessary coverage.

Your best bet to figuring out what your auto-insurance needs will be is to examine the potential policies and have a good idea how much you're



willing to “gamble.” A good example is when you have an older car that’s really not worth very much; it doesn’t make sense to buy collision insurance when it would be ultimately cheaper to replace or fix the car should you actually get into a collision. Often times it’s completely useless to get full coverage on a very old or devalued car. Let’s say you have a car that’s about 20 years old and in fair condition; it may be worth as little as \$1,500. If you total that car you’ll have a hard time getting your insurance company to even admit that it’s worth that much and what you’ll get out of it certainly won’t be nearly enough to purchase a new car—it may not even be enough for a down payment. You’re better off just getting liability and then tucking away the money you would have spent on full-coverage in a savings account. Then, if something happens to your car, you may just find that the money you had saved away far exceeds whatever the insurance company would have given you; you may find that you actually have enough money to fix or replace your car. Auto insurance is simply about how much you are willing to pay out of your own pocket versus how much you want the insurance company to cover. Once you’ve made this decision you’re finally ready to purchase your insurance policy.

## **Insurance Pricing**

The price of auto insurance is affected by several different factors. Obviously, prices will vary depending on the company and you should compare prices thoroughly before you purchase a policy.

The first thing that affects your price is the type of car you drive. For example, a family sedan is significantly cheaper than a sports coup to insure. Your coverage could be more expensive if you purchase a vehicle with a high theft rate or known safety issues. The value of your, however, will essentially be the deciding factor.

The area that you live in is another big factor that affects coverage pricing. If you live in an area where there is a high occurrence of accidents or vandalism, insurance will cost more money. For instance, since more cars are damaged in urban areas than in rural areas, you will probably pay more for insurance if you live in a city.

How often you drive will also affect your insurance costs. The more you drive, the higher the chances you will be an accident. Drivers who have long-distance commutes will pay more than people who live near their workplace. Meanwhile, if you only use your car on weekends, your insurance rates should be lower than someone who commutes to work daily.

The final factors that affect the price of auto insurance have to do with who you are. Your age, sex, marital status and driving record are all taken into account when you buy an insurance policy. Accident rates are higher for drivers under the age of 25, so if you are young, expect to pay a little more. Also, accident rates are higher for young males and single males. It doesn't seem fair, but if you are an unmarried 19-year-old male, your insurance rates will definitely be affected.

The better your driving record, the lower your rates will be. It sort of goes without saying that drivers who are prone to traffic violations or accidents will have to pay more for insurance than safe drivers—it's just simple mathematics. If you're prone to accidents then you're a risk. If these cost factors are beginning to scare you, don't worry. There are several ways to keep your insurance rates down.

There are four main factors that can keep auto insurance rates down. See if you fall into any of the following categories. If you do, you may be able to save money on your car insurance regardless of the value of your automobile.

1. If you are looking to buy a car, consider buying a car that "looks good" to insurance companies. For instance, insurance companies know what kinds of cars are prone to problems. They also know what kinds of cars are most often stolen. If you haven't purchased your car yet, find out what cars make this "good list" among auto insurers.
2. Most insurance companies offer discounts for a variety of reasons - for example, good students, having more than one car insured and accident-free driving are all worth a discount. Ask insurance companies about specific discounts that may be available to you.
3. Consider carpooling or using public transportation to get to work. The less you use your car, the less your insurance will cost you.
4. Finally, drive carefully! Insurance companies are not happy to insure accident-prone drivers, so the safer you drive, the less you will have to pay for auto insurance.

Don't be afraid to ask your insurance company about any discounts they offer—It could save you a little cash.

## **What's a Deductible?**

Getting auto insurance takes a lot more consideration than the value of your car, your driving record or other factors. You also have to assess how much you're willing to spend out-of-pocket if something happens. All auto insurance policies have a deductible. The deductible is the part of your policy that you are responsible for paying (They deduct it from the final amount they pay you for damage, hence the name "Deductible"). Auto insurance policies don't simply take care of all necessary expenses. You are required to pay for some of the damages, but the amount depends on your policy.

Deductibles vary by state, but are most often in amounts of \$100, \$250, \$500 or \$1,000. For example, if you are in an accident that causes \$2,500

worth of damage and your deductible is \$500, you are required to pay the \$500 and the insurance company will take care of the remaining \$2,000.

Choosing a deductible is an extremely important step when you're trying to decide which insurance policy to choose. After all, you will have to pay the deductible for each and every situation in which you require your insurance company to cover damages. Deciding how much you are willing to pay and how often you think you will need to make an insurance claim will help you decide what deductible amount is right for you. If your car is old and only worth about \$1,500, it really doesn't make sense to get a \$1,000 deductible because by then you could almost just buy a new car. Then again it may not make sense to get an insurance policy with extremely high premiums for such an old car.

That's right, the premium you pay, or the price of your total coverage annually, can be lowered by choosing a higher deductible. In other words, if you are willing to pay higher out-of-pocket costs, you can lower the total cost of your insurance.

Purchasing an auto insurance policy doesn't have to be confusing. You want a policy to take care of your expenses in the event of accident, theft, vandalism or most any other instance in which there is damage to your own or someone else's vehicle. By knowing what your state requires, what your needs are, what discounts you qualify for and how much coverage you want for your car, you will be able to choose the right policy.

## Important Terms to Know

Sometimes car insurance websites can be hard to understand. Here are some common terms that they will use on their website and what they mean.

- **Deductible** - The amount an insured person must pay before the insurance company pays the remainder of each covered loss, up to the policy limits.
- **Multi-Car discount** - A discount offered by some insurance companies for those with more than one vehicle insured on the same policy.
- **No-Fault Insurance** - Many states have enacted auto accident laws permitting auto accident victims to collect directly from their own insurance companies for medical and hospital expenses regardless of who was at fault in the accident. Although there are many legal variations of no-fault insurance, most states still allow people to sue the party at fault if the amount of damages is above a certain state-determined amount.
- **Personal Auto Policy** - The most common auto insurance policy sold today. Often referred to as "PAP," this policy is written in simple wording and provides coverage for liability, medical payments, uninsured/underinsured motorist coverage, and physical damage protection
- **Split Limit** - Any insurance coverage with separately stated limits for different types of coverage.
- **Term** - The length of time for which a policy is in effect.
- **Usage** - This refers to the primary function or purpose of your vehicle. For example, if you primarily drive your car to and from work, the usage is considered "commute."

# The Final Thought

So, what did you decide? Is leasing a car for you, or do the detriments outweigh the benefits? Don't be surprised if you're still not 100% sure after reading this book. It's going to take some time and consideration for you to make your final decision.

One thing I whole-heartedly recommend is consulting family members or friends who have leased cars and asking them about their experience. They may be able to point you in the direction of a trustworthy dealer who offers good rates or at least be able to tell you which shady dealers you should steer clear from.

Once you've decided on buying a car with a loan or leasing make sure you don't forget to factor your insurance into the equation. Insurance is often the limiting factor when people are considering leasing or buying a new car. It's one reason I actually recommend buying affordable used cars from private parties whenever possible. Think of it this way: You could lease or buy a new car and end up spending about \$20,000 for a decent car. Or you could save up your money and buy a decent older car for \$4,500. A few years from now your new car will be worth less than half of what it was when you bought it; even if you pay it off you'll have paid substantially more than it's eventually worth. Your used car, on the other hand, will have hardly depreciated. When you buy an older car for about \$4,500 and take care of it, you'll likely be able to sell it for \$3,000-\$4,000 again to someone else who needs a used car.

I used to have a '91 Honda Accord that cost me \$1,300. I bought it because I just desperately needed a car for work. After a while I saved up enough money to get a nicer car and I ended up selling my Honda 1 year later for \$1,400. Yes, I actually turned a profit; the value of my car was not

much but it also had hardly changed at all in one year. If you just really need a car to drive then the soundest investment is to buy a functional vehicle outright from a private party. Alternatively buying used cars from dealerships can be slightly less costly than new cars but expect to pay as much as 4 times what the car is worth in the end.

If you just want to be able to drive luxury cars that you normally wouldn't be able to afford then leasing really isn't a bad option. In the end you'll probably end up spending on 3 or 4 different cars what you could have saved up and spent on just one but sometimes it's just financially easier to have smaller payments than to be investing equity in something. For many, car leasing is exactly like having an apartment. No, it's not a good long term strategy because technically you have a lot of wasted money in the end (You paid money but after you pay it's gone; there's no equity) but it allows you to save up money so that you can make sound future investments.

Let's say you lease a car instead of buying it and over the course of 3 years you end up paying \$9,000 at \$250 a month. You have no equity in the car and you didn't decide to buy out the lease because it wasn't a good deal; so what have you gained? Well, let's say that same car would have had \$650 monthly payments if you were buying it with a loan. That's \$400 a month you were able to save up; you still had a car to drive and you were able to save up money for a better future investment. You may end up spending a lot more money overall just to own a car but it may not have been possible otherwise; you may not have been able to afford the higher payments. Now that you have money (presumably) saved up you can afford a larger down payment which will get you lower monthly payments when you do finally decide to buy a car.

Hopefully this book has helped you make an educated decision on whether or not leasing is right for you and what type of financial strategy

you should take when making a decision about acquiring a new car. Consider leasing as more of a financial planning strategy. While it's technically different than renting it has all of the same advantages as renting: You waste a little money now and you can save up for a larger investment with an equity return in the future. If your budget allowed it you could technically lease for as long as you wanted if you didn't mind always having a monthly payment and never owning a car outright (though, I don't recommend it since full-coverage insurance will inflate your payments quite a bit). What's important is that you make the best decision that fits your budget and allows you do make the best financial plan possible!