Leasing

A lease is the long term rental of an item like a car.

Something that is leased loses value as it is used This is called depreciation.

The monthly lease payment covers depreciation and interest.

Advantages of Leasing

1. Smaller monthly payment than buying a car.
2. Many leases are for the same length of time (or less)

than the "bumper to bumper" warranty so repairs are covered.

* You still may have to pay for maintenance - oil changes, brakes, tires.

③ You just turn in your car at the end of the lease.

Disadvantages of Leasing

1. You never own any of your vehicle (perpetual renting)
2. Usually you pay more to lease and then purchase the car at the end than if you purchased at the start.

* You pay interest with each

lease payment and then you will pay interest if you finance the purchase.

(3) Leases specify in the agreement the amount of miles you can drive the car during the lease term. The agreement will state how much

you will be charged for each mile you go over the limit.

* This gets very expensive.

Example You are allowed 12,000 miles a year. You drive 13,000 miles. Each extra mile costs you $.18.

1,000 X .18 = $180.

④ Terminating the lease early will cost you a lot. Most agreements will state that all remaining payments are due.

⑤ If you total the leased vehicle or it is stolen then you will have to pay the full $.

6 "Status" buying - leasing has lower payments so you may increase your payments to get a fancier car.

Leasing formulas

① Net capitalized cost

negotiated price - down payment - trade in (if you have)

② Money Factor

annual interest rate as a #

2,400

* don't convert to a decimal

③ Residual Value: Dealer tells you upfront what the value of the leased vehicle will be when you return it at the end of the lease.

3. Average Monthly Finance Charge

(net capitalized cost + residual value) X Money Factor

(4) Average Monthly Depreciation

$$\frac{\text{Net Capitalized Cost} - \text{Residual Value}}{\#\text{ months for lease}}$$

Your total lease payment =
Average Monthly Finance Charge + Average Monthly Depreciation + Sales Tax

Sales tax is added to each payment.

Leasing Exercise

You negotiate the value of the leased Acura at $25,000
You put 20% down and finance it for 48 months at 6.5%
*Sales tax of 6% is added to each lease payment.
Residual value is 35% of the $28,000 MSRP.

① Find the net capitalized cost:

$25,000 − 5,000 = 20,000

negotiated cost − down payment

② Find the money factor:

Do not convert to a decimal → $\frac{6.5}{2400} = 0.00270833$

③ Residual value:

MSRP

.35 X 28000

= 9,800

(3) Calculate the average monthly Finance Charge:

$(20{,}000 + 9{,}800) \times .0027083 = \$80.71$

(Net capitalized cost + residual value) × Money Factor

① Calculate the Average Monthly Depreciation:

$$\frac{20{,}000 - 9{,}800}{48} = \$212.50$$

$$\frac{\text{net capitalized cost} - \text{residual value}}{\#\text{ months for lease}}$$

⑤ Calculate the monthly lease payment:

80.71 + 212.50 = $293.21

Avg Monthly Finance Charge + Avg Monthly Depreciation

* Add sales tax: 293.21 × .06 = 17.59

Monthly Lease Payment = 310.80

⑥ How much will you have paid to lease the car for 4 years?

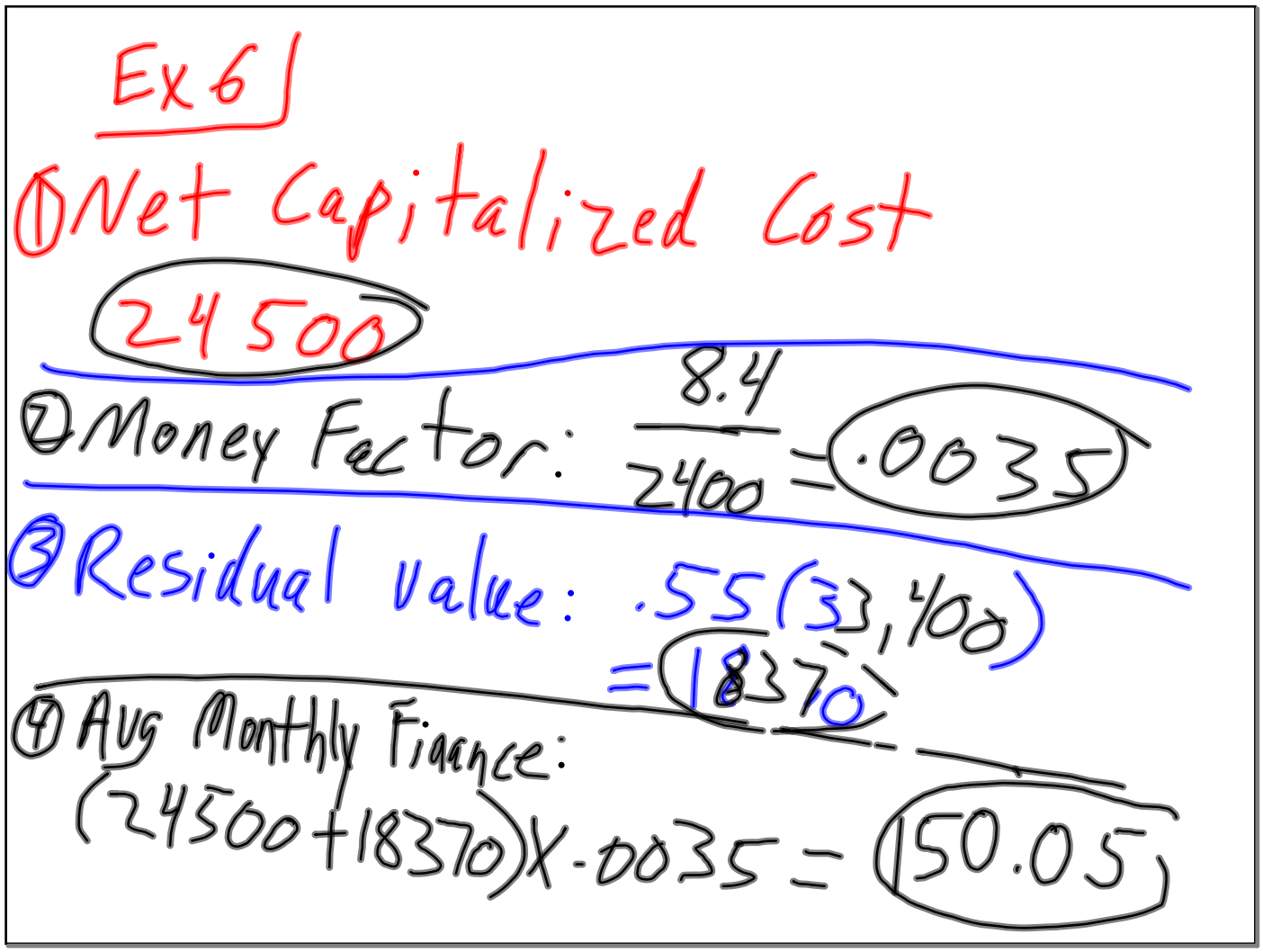
Down Pymt + (Lease Pymt X # months) = $19,918.40

$5,000 + (310.80 X 48) = $19,918.40

⑦ Is purchasing or leasing the better deal:

Purchase = 19,673.76

Leasing = 19,918.40


Ex 6
① Net Capitalized Cost
24500
② Money Factor: 8.4/2400 = .0035
③ Residual value: .55(33,400)
= 18370
④ Avg Monthly Finance:
(24500+18370)X.0035 = 150.05

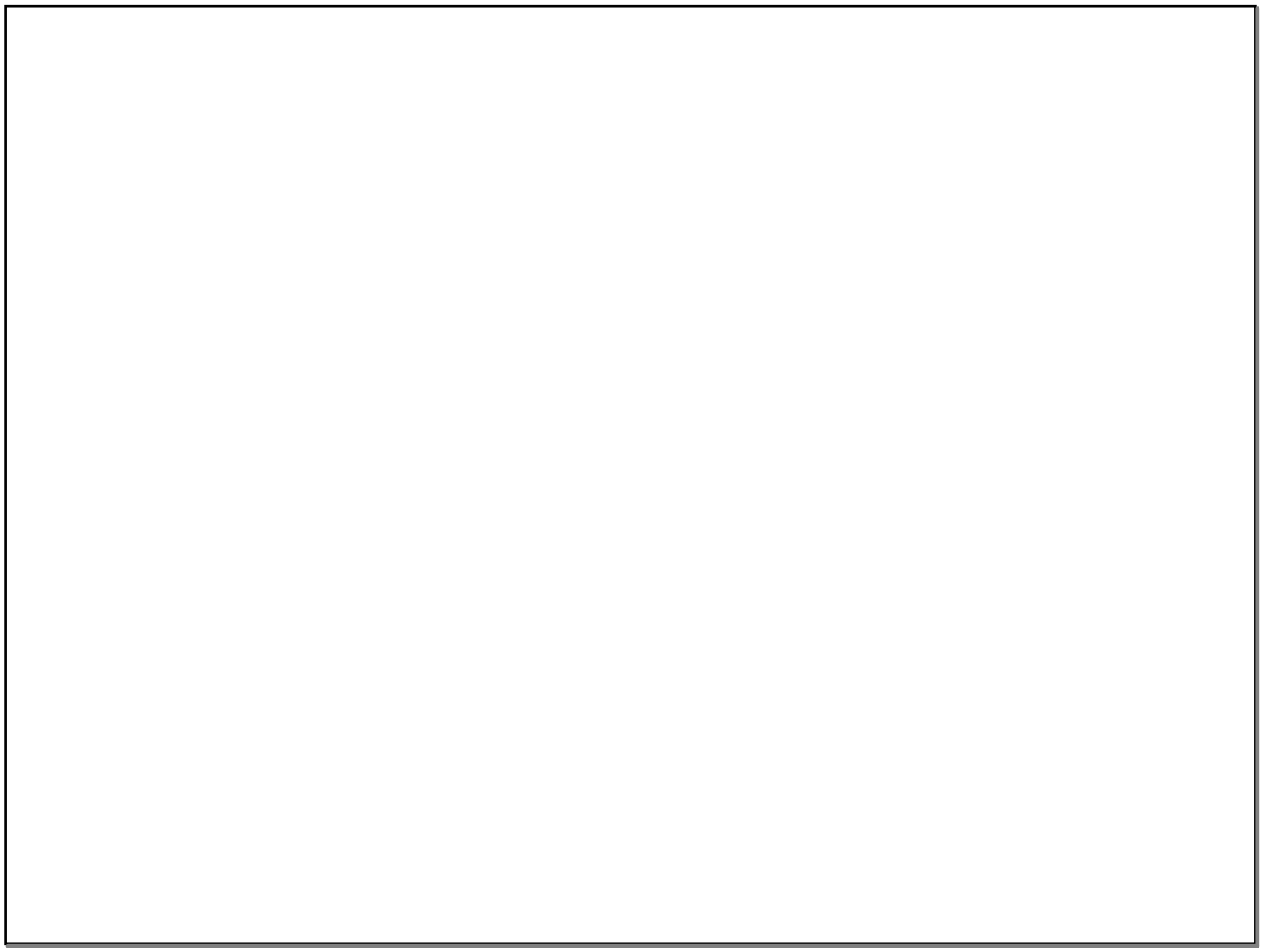
⑤ Avg Monthly Depreciation:

$$\frac{24500 - 18370}{30} = 204.33$$

⑥ Total Monthly Payment:

$150.05 + 204.33 = 354.38$

⑦ $5000 + 354.38(30)$

$= 15631.40$ Total Cost of Lease

January 10, 2014