SHOULD YOU BUY OR LEASE A VEHICLE?

Americans love their cars, and automobiles typically rank as one of the highest expenses in a family's budget. That's why many financial planners help their clients make automobile decisions.

And there are many decisions to be made: Should you lease or own? If you own, should you buy new or used? Should you finance the purchase, or pay cash? The answer depends, as it usually does when it comes to financial matters, on your personal circumstances.

Take the decision of whether to lease or buy. People think of leasing as simply renting a car, though it's much more complicated than that. Leasing essentially means paying for a car's depreciation during the length of the leasing contract—typically two to four years—plus finance charges and other fees.

Leasing was very popular in the 1990s—at one point, consumers leased four in ten vehicles. Leasing's popularity has waned some in the last two years as dealers have pushed new-car specials, but you'll still find rabid supporters of leasing. In broad terms, leasing works best under the following circumstances:

- You like to drive late model cars versus driving the same car for a decade
- You don't drive more than 10,000 to 15,000 miles a year, the limit typically imposed by the contract
- You use the vehicle for business, though recent law changes makes the tax benefits less clear cut between leasing and buying
- Your family takes good care of vehicles
- The car is more likely to depreciate, not appreciate, in value
- You have good credit

Even if these criteria match your circumstances, consider one other thing: leasing is complicated and not always as it appears. The down payment and the monthly payments usually are lower—significantly lower—than buying a comparable new car. But there are upfront costs such as acquisition charges, security deposits and so on, and there may be potential backend charges such as an early termination fee or "excessive wear and tear," the determination of which is up to the dealer and with which you may not agree.

And there's always that excess mileage charge waiting in the wings. You may feel confident that you won't exceed the mileage limit, but circumstances may change—and excess miles are very expensive.

Owning has its pros and cons, too. Owning the car longer than the loan payments is usually a good financial—and psychological—deal. You also can put any resale profits toward buying a new car—with leasing, you're always making car payments, yet you never end up owning it.

On the other hand, the car you buy may depreciate in value far more than you anticipate, whereas the amount of depreciation is locked into a lease deal—the dealer takes the risk. You may end up owning the vehicle beyond the warranty, which could mean costly repairs you pay for—something you're not likely to do when leasing.

If you decide to buy instead of lease, you have another key decision to make: Should you buy a new car or a used one? Many experts say the best deal is to buy a car that's one or two years old. A brand-new car usually loses the largest percentage of its value in the first two years. Right now, the used-car market is overstocked, which means better deals. A trade-off, of course, is that the first years of the warranty are already gone when you buy used.

Whether new or used, should you pay cash or finance? Few people can afford to buy a brand new car with cash. But often the more cash you can put down the better. An all-cash deal, for example, may allow you to negotiate a better price, and a larger down payment means you end up paying less in finance charges.

On the other hand, with interest rates so low—some deals offer zero-percent financing—it might pay to finance if you can invest the cash you don't pay toward the car payments at a higher-earning return than what you're paying in finance charges.

Clearly, the decision whether to buy or lease a particular vehicle can mean hundreds and often thousands of dollars in potential savings if you take the time to run the numbers before jumping into your dream car.

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