

# Lease Vs. Finance: Which One's For You?

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Buying your first car is most peoples first major purchase. Whether it is an economically sound first purchase is a discussion for another time. Regardless, most people tend to lean towards financing when they get their first car because that means that you're paying monthly for a car that you'll own after a few years. Financing a car is similar to paying a mortgage in the sense that you're making monthly payments at a set interest rate. Although, some mortgages have variable interest rates and houses are appreciating assets whereas cars are depreciating. So, by this point, you're probably wondering "What is my other option besides financing?" You have the option to lease, which for some, may be the most optimal solution.

## Contents

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1. Lease
2. Finance

## 1. Lease

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The underdog, leasing. Many people don't lease a car because they're after ownership. Furthermore, you're very limited because you do not actually own the car. When you lease a car, you're basically paying to be able to drive a car for a set period of time. However, you may be able to buy out the car fully at the end of your term. There are many reasons why leasing can be appealing:



### Lower Monthly Payments

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When a car is being leased, you will only be paying the amount that the car is expected to depreciate over a set amount of time. If you have a \$30,000 dollar car and it is expected to depreciate \$15,000 over 4 years. You will be paying ( $\$15,000/48 \text{ Months} = \$312.5$ ). Whereas, if you were financing a \$30,000 car for 5 years your monthly payment will still be \$500, not including interest or tax! Furthermore, you are more likely to lease a car without a downpayment or any upfront sales tax! Lastly, you won't be upside down! Upside down when financing means the car depreciates so much that you owe more than it is worth!

Another factor to consider is that you do not have to get approved for a loan. When you're financing a car, you're taking out a loan to pay for the car and making monthly payments. This means you may need a cosigner if your credit history is not up to par. Furthermore, with any loan approval process, you'll need a credit check which can reduce your credit score by 5 – 10 points!

### Repair Expenses

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When a car is being financed, you're responsible for every little thing on the car. Also, when you're transmission blows due to no fault of your own the costs can be quite expensive unless you have a warranty! When a car is leased and you're under the manufacturer's warranty, being slapped with a large repair bill at the end of your lease term becomes less of a worry. However, you will still be responsible for the wear and tear of the car. One thing that may detract you is the fact that leased cars have a specific amount of mileage you can put on it per year. If you were to go over, you'd most likely be charged per kilometer!

## Switch Cars Often!

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Probably one of the most appealing aspects of leasing, you can switch your cars often. At the end of your lease, you're not obligated to resign or purchase the car outright. If you want, you can go to a different company and lease an entirely different car with different terms! For someone like me, this is great because I get bored and always want to move onto the next best thing! Furthermore, selling your car can be a hassle. When you lease a car, you waive the responsibility of having to find someone to buy the car or take over the lease!

## 2. Finance

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For financing, the pros can definitely outweigh the cons! Furthermore, some people may find it more advantageous to finance instead of lease. This is because it is possible to save more money in the long run! Here are a few reasons why one might choose finance instead!



### Cheaper In The Long Run

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If you're constantly leasing a car, the payments will never stop. However, when you finance a car, once it's paid off you won't have to worry about car payments! This means you can save quite a bit of money by just paying it off and driving it for a multitude of years! Even though a car is a depreciating asset, the equity is still there which means that you can sell it and get a portion of your money back! This would not be available to those who decided to lease their cars!

### Can Get Rid Of It

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When you're leasing a car, you're going to be stuck in a fixed term which can be difficult to get out of. When you own the car or are financing, you can sell the car on a whim! There is no need to ask for permission to go through any loopholes! You can trade-in the car or find a private buyer! Either way, the power and right to make a decision is in your hands!

### Freedom!

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What everyone strives for in many aspects of life. When financing you have the freedom to do whatever you want, legally! This means you can drive your car 50,000 km a year! Having a restriction on the amount you drive can be quite the nuisance. It becomes even more of a pain when your lease is up and have to pay the difference! Furthermore, you are able to do all the mechanical and aesthetic modifications the law will allow! If you want to slap a giant vinyl of a shark on the side of your door, no one is going to tell you that you can't!

## Which Is Right For You?

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As you guys probably already know, the answer to this question depends on the person and their situation. Many people appreciate the lower monthly payments and the ability to switch their cars quickly. However, many people want ownership in freedom in their purchases and don't want to have something that will always be owned by something else.

if you're a business owner or are going to be, you will want to look at the tax benefits of both owning and leasing a car! The tax laws are most likely different between Canada and The United States. However, the tax benefits for both options may very well be the deciding factor in your next car purchase!

## What's Next?

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If you're currently deciding on what to do, your best bet is to research the type of car you like! Furthermore, different dealerships and companies can carry different rates. Therefore, shop around to see which one can give you the best deal! I'd highly suggest comparing cars.

If you only want one type of car you are sort of putting yourself in a box. This is because you are blocking out the benefits of other vehicles which may be more aligned with your lifestyle and budget! However, make sure you find the best solution that is closest to what you want because that is the only way you'll truly be happy with your purchase!