That new car you’ve been wanting is at a great price right now. The advertised price per month will fit into your budget. However, when you look closer at the fine print, you see that it is a lease payment.

When does it make sense to buy a used car and when does it make sense to just lease the car if the aim is to have a car at the lowest price?

There’s no doubt that the lease payments look good, but there are associated fees you need to be sure to figure in to get an accurate number for the monthly (and long-term) costs. Let’s take a quick look at the numbers.

The lease amount is based on you driving either 10,000 or 12,000 miles during the lease period. If you drive more, you will be charged from 15-20 cents per mile when you return the car. Even a small overage of 1,000 miles amounts to $200. The overage costs can really add up. With a used car, you do have depreciation based on the number of miles driven and the age of the car, however, it doesn’t amount to as much as the overage fees.

The credit requirements for leasing, at least for the best prices, are high. The advertised lease rates are usually based on someone who has a great credit rating. If your credit is less than stellar, you’ll pay more than is advertised.

Many companies have a “disposition fee.” You pay this fee (ranging from $300 to $600) when you turn the car in. In addition, if you haven’t taken good care of the car, the leasing company may charge you for excess wear and tear. You can buy a warranty up front to cover these costs or you can pay extra when you turn in the car, but either way it will increase your out-of-pocket expenses.

If you have a used car, you will also pay if you don’t take good care of the car. But that comes in the form of a lower price on resale. It just makes sense to take good care of any vehicle you are investing your money in.
Depreciation is another factor to consider when deciding whether to lease or buy used. All cars depreciate in value, but the rate is higher when cars are new. A new car loses 1 percent of its value by just driving off the lot, according to Edmunds.com. The first year it loses 19 percent, the second year 12 percent and the third year only 11 percent. So if you have purchased a used car, someone else has already taken the hit on the big depreciation years.

The numbers all point to the wise choice of purchasing a used car. But there are two factors that you need to consider.

Is it important that you have a new car? For some people, their profession or family situation requires that they drive a new car. If so, you might want to consider leasing a vehicle.

The second consideration is repairs to the vehicle. If you lease a car and repairs must be made, they are often covered under the factory warranty. Some leases even cover the regular maintenance costs. Be sure to read the fine print to see what is included. An unreliable used car can cost you a lot. If you decide to purchase a used car, have a mechanic or a mechanical friend go through the auto carefully to look for danger signs.

Buying or leasing is an important decision. Be sure to consider all the costs before signing on the bottom line.

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