Four Wheels, Many Decisions

As the summer months approach, many people want to hit the open road – especially given that most of us have been largely house-bound for the last couple of years.

Getting a new vehicle can be exciting but stressful. What make and model will you choose? Which colour and options do you want? Which dealership will you go to? How will you negotiate?

Another important decision is whether to buy or lease. Both methods of acquiring a vehicle have their advantages and disadvantages, so your decision hinges on your personal requirements and financial circumstances. Let's consider both options.

Buying your vehicle

Few of us have the cash readily available to purchase a new vehicle outright, so the need for financing is common. The amount of your down payment will depend on several factors, including the overall cost of the vehicle and, of course, how much cash you put toward the down payment. It's typical to target a down payment of 10% to 25%. Of course, the larger the down payment, the less financing you'll need and the less interest you'll pay.

Consider the optimal length of term as well, since you want to minimize the total interest paid but also want your ongoing payments to be manageable. Be realistic about the vehicle you buy and the options you want – keeping the initial price tag reasonable will help you contain your overall financing costs.

You'll also need to decide if you want to finance through the dealer or your financial institution. Sometimes the dealer will offer you favourable loan terms as a way to entice you to buy from them, while your financial institution may offer an attractive rate because of the relationship you've established. Shop around to see where you can get the best deal, and make sure you're completely clear on the contract terms and conditions to avoid any unpleasant and potentially expensive surprises. If you fall behind in payments, you risk losing your vehicle (which you'll likely pledge as collateral for the loan).

Leasing your vehicle

An obvious difference between buying and leasing is that buying results in vehicle ownership at the end of the financing agreement, whereas leasing is essentially renting the vehicle – although you may have the option to purchase it once the contract ends.

Leasing can be attractive if you don't want the responsibilities of vehicle ownership or don't believe it's financially feasible to own an asset whose value depreciates steadily (and whose maintenance costs tend to rise over time). With a lease agreement, you return the vehicle to the dealer once the contract ends, and then if you begin another agreement with a new vehicle, it ensures that every few years you get to drive a later-model vehicle that should be more reliable than an aging model.

Another potential advantage of leasing is lower monthly payments. With a loan, the payment schedule covers the entire value of the vehicle plus interest charges and other fees related to purchasing a vehicle. With a lease, the payments take into consideration a continual depreciation in the vehicle's value, so your monthly payments will be lower than financing.

While payments are lower with leasing, so might be the flexibility. For instance, lease agreements allow for a certain mileage limit each year; if your driving exceeds that limit, you'll pay a penalty. Also, if wear and tear on the vehicle is beyond what's typically reasonable, then the lessee (i.e., the person holding the lease) will be financially responsible for repairs.

There are other factors to consider before deciding to buy or lease, but we've looked at the main benefits and drawbacks of each. An advisor can help you determine which approach best suits your unique financial circumstances, and how you can best manage the monthly payments.

Please contact us to find out more about how we can build a customized plan that includes costs associated with a new vehicle.

(22-0462) 03/22