

You've just graduated from college and are beginning your career. You're thinking about getting a car when you see this enticing ad:

FOR LEASE: New Honda Accord LX. Automatic Transmission, A/C, CD/Cassette Player, Power Windows and Locks, Dual Air Bags, Tinted Windows, Sunroof. \$239 per month/36 months.

Better read the fine print. Car leases work much like student loans. You're entering into a contract to borrow money, you'll pay interest on that money, and make a payment each month for a specified term.

If you lease this new Accord, you'll pay up-front costs, including a large down payment (or "capitalized cost deduction"), your first monthly payment, and a refundable security fee, plus taxes, tags, and registration fees. And when the lease runs out, you may not have the option to purchase the car.

If you absolutely must have a new or used car, leasing—rather than buying and financing a car—can make sense in certain circumstances, especially if you use your car for legitimate business purposes. (If so, you may be able to deduct a portion of the lease payments on your income tax return.)

When you enter into a new-car lease, you are only paying for the vehicle's depreciation during the lease term, plus rent charges (like interest), taxes, and fees. Although your up-front costs are lower than a down payment on a conventional auto loan, and your monthly cash outlay is lower, extra charges at the end of the lease can really hurt your wallet.

Does leasing fit your lifestyle? Before you begin to shop for a lease, think about how much you drive and how you'll be using the car:

- Leasing companies generally allow you to drive a predetermined number of miles per year. For the Accord in our example, it's 12,000 miles per year. Exceed your mileage allowance at the end of the contract and you'll pay for each mile over your limit. Charges for those extra miles can add up to big bucks.
- Consider how you'll use your car. Most leases permit only normal wear and tear on the car. If you carry equipment that would cause extensive wear and tear, you could be facing extra charges at the end of the contract.
- Think about how long you plan to keep the car. Leasing tends to be best for folks who like to drive a new car every two or three years.

Do your homework. The dealership is required by law to provide you with a standardized disclosure form, which will describe the car's gross capitalized cost, including the car's agreed-upon value; security deposits; insurance premiums; disposition fees; taxes; and the car's residual value—the estimated cost of the car at the end of the lease. You can view and print a sample form from the Federal Reserve Board's Web site at www.federalreserve.gov/pubs/leasing. The site also features *Keys to Vehicle Leasing: A Consumer Guide*, with additional information about car leasing, such as a glossary of leasing language and borrowers' rights and responsibilities.

There is research to be done and there are questions to be answered before you can decide if a lease is worthwhile. This checklist will help you shop for the best lease deal:

- Read the Automobile section of the newspaper to get a feel for the leasing programs in your area, and *Consumer Report* and *Consumers Digest* for the latest trends in leasing.
- Shop around. Although automobile manufacturers; banks and other financial institutions; and dedicated leasing companies offer leasing programs, the automobile manufacturers frequently offer the best price through their dealers. The dealers should have an easy-to-understand brochure that explains the leasing process and helps you evaluate whether leasing is for you. Ask for a copy of the contract and study it at home. Make a list of questions you want answered.
- Make a deal. First, ask about the car's "gross capitalized cost" (the actual price of the car that's built into the lease). Leasing experts suggest that you first cut your best deal on a car without telling the salesperson whether you want to lease or buy. Then negotiate the lease separately.
- Consider only closed-end leases. Open-end leases may require you to buy the car at the end of the contract or make extra payments if the car, at the end of the contract, sells for less than the price projected at the start of the contract.
- Check out any setup fees, document charges, security deposits (one monthly payment is the norm), the yearly mileage limit, and the charge for additional miles.
- Ask about the "residual value" of the car (the amount the car is going to be worth on the day you return it). Cars that hold their value often make the best lease deals. To make sure the dealer is not artificially inflating the value, check it against the *Kelley Blue Book Residual Value Guide*. You can find the blue book value online at www.kbb.com.
- Understand the hidden cost, or the "lease rate." Once the new rules go into effect, this will be disclosed as a dollar amount. To find it: Subtract the residual value from the capitalized costs, and that will give you the depreciation built into the lease. Then subtract the depreciation from the total payments you will make on the lease. The dollar amount left is the total interest you will pay. You'll be able to shop one lease against another by comparing that figure.
- Ask about the "money factor" or interest rate of the lease (similar to the annual percentage rate [APR] on a bank loan). To figure the rate: Add the car price and the residual value. Divide by two, and then multiply by the number of years in the lease. Take that number and divide it into the total interest you will pay. It's a complicated formula, but you can use it to make comparisons when you shop around to see if you're getting a good deal.
- Ask what happens if you want to opt out of the lease before it expires. Some leases require you pay off the lease and also charge a substantial penalty, based on the car's depreciation.
- Evaluate your options at the end of the lease. If there is an option to purchase, get the purchase price in writing before you sign the contract.
- Make sure the contract includes gap insurance (or makes it available for an extra \$100 or \$200). This covers penalties if the car is stolen or destroyed in an accident. A number of automobile manufacturers include gap insurance in their lease price.
- Make sure the manufacturer's warranty will cover the car for the entire lease and the number of miles you will drive.
- If you plan to lease a used car, have a mechanic check the brakes, tires, and other parts that wear out.