

Buy a car at the end of your lease

You've come to the end of your lease and you like your car enough you want to keep it in the driveway. Just like buying a used car, there is some research to be done to nail a good deal.

First, you need to know the cost of buying out your lease. Read the fine print of your contract and look for the "purchase option price". This price is set by the leasing company and usually comprises the residual value of the car at the end of the lease plus a purchase-option fee ranging from \$300 to \$500. When you signed on the dotted line, your monthly payments were calculated as the difference between the vehicle's sticker price and its estimated value at the end of the lease, plus a monthly financing fee. This estimated price of the car value at the end of the lease is what is termed in leasing jargon "residual value". It is the expected depreciation - or loss in value - of the vehicle over the scheduled-lease period. For example, a car with a sticker price of \$40,000 and a 50% residual percentage will have an estimated \$20,000 value at lease end.

Now that you know the cost of buying out your lease, you need to determine the actual value, also termed "market value", of your vehicle. So, how much does your car retail for in the market? To pin down a good, solid estimate you need to do some pricing research. Check the price of the vehicle, with similar mileage and condition, with different dealers. Use online pricing websites, such as Cars.com, Edmunds.com and Kelly Blue Book for detailed pricing information. Gleaning pricing information from various sources should give you a fair estimate of your vehicle's retail value.

All you have to do now is compare the two amounts. If the residual value is lower than the actual retail value, then you're into a winner. Unfortunately, there is a good chance a car coming off a lease is a little on the high side.

Don't despair though. Leasing companies know as much that residual values on their vehicles are greater than their market value and as such are always on the look out for offers. You can knock down on the price of your leased vehicle with some smooth negotiating tactics. Put forward a price that is below your actual target and negotiate hard until you wind up near that figure.

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