

Car finance option can be big saver

by Bill Deneault, CA

New car options don't begin and end at your dealer's showroom these days — they also extend to how you'll pay for your new car.

Basic options include leasing, purchase with a bank loan and a new option, the buy-back lease plan, offered by one of the chartered banks, which allows you to buy the car at the end of the lease just as a leasing company does.

Each has its own advantages and disadvantages. If you lease a car either on the bank lease plan or through a leasing company, the downpayment will be small — usually only two payments — but you may have a high buy-out cost at the end of the lease if you want to keep the car, or a mileage charge if you drive over an agreed-upon number of kilometres.

Bank loans, on the other hand, generally offer cheaper rates of interest and you own the car at the end of the purchase period, but the downpayment is larger and the monthly payments higher.

To see if you can afford to carry

the car, compare the monthly payments for a) a bank loan over three years; b) a bank loan over four years; c) leasing through a leasing company; d) leasing through a buy-back lease plan.

For the sake of illustration, let's say a bank loan will cost you \$450 a month, while a leasing plan will cost you \$350 a month. Can you afford either?

To check, open a separate bank account and start making \$350 a month lease payments into the account, pretending that you already have leased the car. If you can handle the \$350 a month, increase your savings to \$450 a month. Throw in a bit more for insurance and maintenance and an extra \$100 a month for gasoline. Can you carry those costs each month?

This method gets you accustomed to making the car payments — and seeing if you can afford the payments — and it also is a simple and painless way to build up a downpayment for whichever car purchase method you choose.

Which method is best for you? Consider the cost of each option.

The cheapest is purchasing through the bank, because you pay a lower interest rate.

Leasing costs vary since leasing companies take two forms — those which own their own car dealership, make their profit on the "sale" of the vehicle and thus charge an interest rate that is just a bit more than that available at a bank; and those which make their money from the financing of the vehicle.

Expect to pay higher interest at companies which make their money from financing.

The bottom line: check the total interest cost for the vehicle you are purchasing or leasing because what appears to be very affordable might not be.

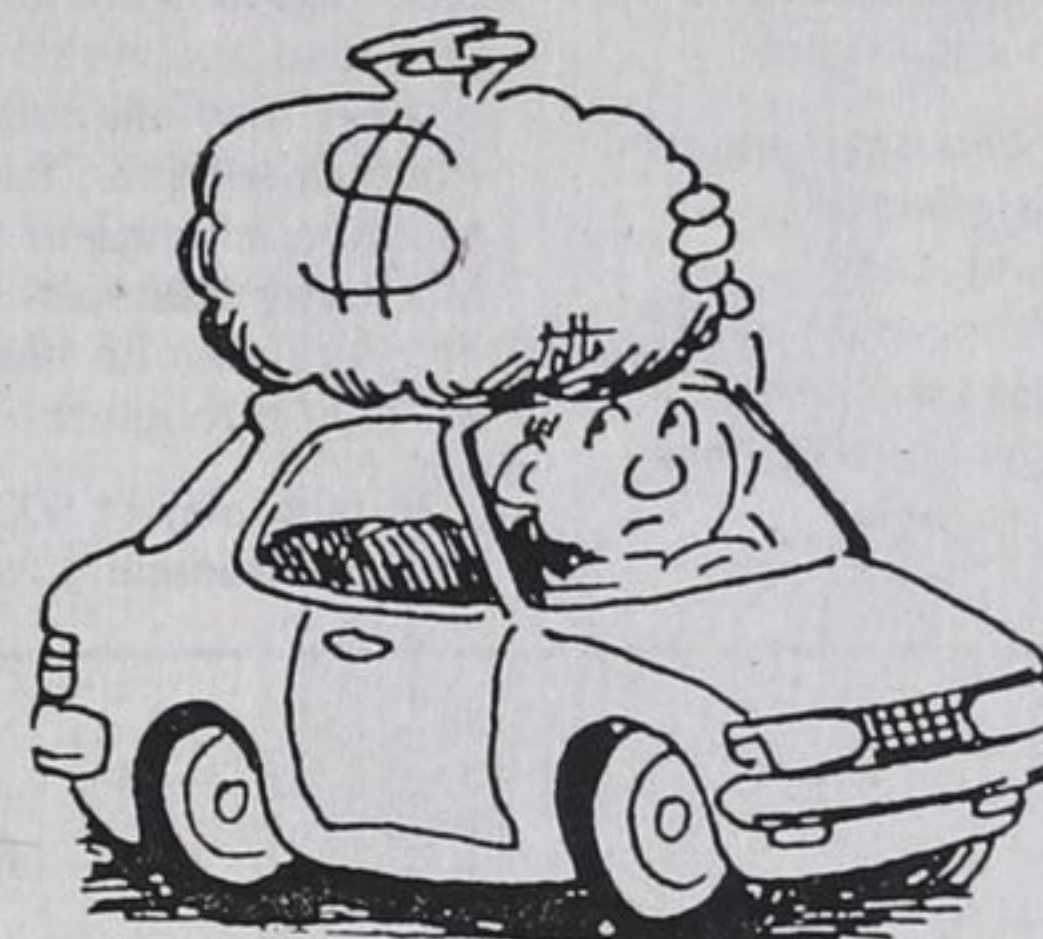
The best advice is to make certain you know what you are looking at when you compare costs. In leasing, this means checking what the buy-out cost is, whether you are expected to guarantee the buy-out price and how that compares with the expected value of the car at the time of buy-out; and whether

there is a mileage charge if you exceed a certain number of kilometres.

When you have your comparisons, take them to your chartered accountant. His advice could be the option that saves you money,

in the long run.

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