

Financing an Auto

Once a consumer decides to acquire an automobile, the next step is to decide how to pay for it. There are three methods of financing an auto:

- **Pay cash:** Using already accumulated funds.
- **Borrow the funds:** Taking out a loan and paying for the vehicle over time.
- **Lease:** Allows use of an auto for a specified period of time, in return for regular monthly payments.

The decision as to whether to pay cash, take out a loan, or lease a vehicle is usually made after considering a number of personal and financial issues.

Factors to Consider

The table below compares some of the factors to consider when considering how to finance an auto.

	Pay Cash	Borrow the Funds	Lease
Method of financing	Consumer uses cash to completely pay for the vehicle at the time of purchase.	Consumer borrows the funds to purchase the vehicle, and makes monthly payments to repay the loan.	Consumer obtains the right to use the vehicle for a specified period of time, in return for monthly payments.
Out-of-pocket costs	Entire purchase price.	Down payment and/or trade-in. Special offers may allow zero down.	Down payment and/or trade-in. Often less than for an auto loan. Special offers may allow zero down.
Monthly payments	None	Payments cover repayment of loan amount, plus interest.	Payments cover estimated depreciation during the lease period, and other costs. Typically less than for an auto loan.
Vehicle ownership	Consumer is the owner.	Consumer is the owner, subject to a lien held by lender. Once loan is repaid, consumer takes title free and clear. Lender may repossess vehicle if payments not made as scheduled.	Leasing firm retains ownership. Consumer usually has the right to purchase the vehicle at the end of the lease.