

(From Chapter Three: How To Buy Or Lease A New Car After Bankruptcy)

How To Calculate Lease Payments

Lease payments are calculated by adding the monthly depreciation of the car, the monthly lease charge (the equivalent of an interest charge), and the monthly sales tax.

The monthly depreciation is calculated by subtracting the estimated residual value of the car (i.e., what the car will be worth at the end of the lease) from the selling price of the car when new, then dividing by the number of months in the term. For example, if the car is worth \$17,000 new and will be worth \$10,000 at the end of the lease, your payments will be based on the difference between the two values: \$7,000. On a 36-month note, the monthly depreciation would be \$7000 divided by 36, or \$194.45. (As you can see, it is in your best interest to lease a car that depreciates slowly. If that same \$17,000 car were going to be worth \$13,000 at the end of the lease, a difference of only \$4000, the monthly depreciation would be only \$111.12.)

The monthly lease charge depends on the money factor that the dealer uses. (A money factor is used in place of an interest rate when you lease a car.) A normal money factor is between 0.003 and 0.005. You can calculate the approximate interest rate equivalent by multiplying the money factor by 2400. For example, a money factor of 0.0037 is approximately equivalent to an interest rate of 8.9%. You can calculate the monthly lease charge by adding the initial value of the car to the residual value of the car, then multiplying by the money factor. For example, if the car is worth \$17,000 new and \$10,000 at the end of the lease and the money factor is 0.0037, multiply \$27,000 times 0.0037. This gives you a monthly lease charge of \$99.90.

The monthly sales tax is calculated by adding the monthly depreciation to the monthly lease charge, then multiplying by the sales tax rate. If you had a monthly depreciation of \$194.45 and a monthly lease charge of \$99.90 (as above), you would add them to get \$294.35, then multiply that number by the sales tax rate. If the tax rate were 8%, your monthly sales tax would be \$294.35 times 0.08, or \$23.55.

Your monthly payment, then, would be \$194.45 (depreciation) plus \$99.90 (lease charge) plus \$23.55 (sales tax), for a total of \$317.90.

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