

Looking for a new vehicle?

A frank discussion on depreciation.

Your trusted vehicle of many years and even more memories has guzzled its last gas. Perhaps you have a new driver in the family, or maybe you just need a second vehicle. Maybe you just want another vehicle. Ok, great! Do you buy new or look for something a bit more broken in? The question at hand, like many in life, is more complex than it first appears.

As you can guess from the title of this article, we argue that going with a used vehicle is the single best bang for your buck in the automotive world. Don't get me wrong, if you have an extra \$68,000 for that [2017 Corvette Stingray](#), by all means go for it! For most of us, however, that is a pipe dream. I think we'll leave that discussion for another article. Let's look at a more reasonable option for the family, shall we?

This is a moderately equipped [2017 Chevrolet Impala](#), middle of the pack really, nothing too fancy. The cost of this vehicle is \$35,315.00 before taxes and fees. Most importantly, this is before financing. As of this writing the interest rate for a 60mo loan is 4.27%. For this example, we will say that the price included all taxes and fees and you had a down payment and trade in combination of \$5,315.00, bringing the financed amount to an even \$30,000.00. Now you being the responsible person that you are, you make every payment and 5 short years later you are all paid off and the vehicle is yours, congratulations! Now let's see what that really costs and what you are left with at the end.

Your monthly payment for this loan is a crisp and somewhat cringe inducing \$556.00. At the end of the loan you will have paid a total of \$33,370.00 or \$3,370.00 more than you borrowed. Huh, that isn't too bad is it? This is where those of you who have been around the block a few times start looking for that shoe to drop. Well, you're right and here it comes!

First this is a very simplistic view of things. Some loans also come with fees of their own, which of course increases the costs. Another problem is that interest rate depends on excellent credit. Most likely banks will consider excellent credit to be a FICO score of at least 720, the average in the United States as of 2015 is 695. This little tidbit of information tells us that the average American buying a new car is going to be paying more than 4.27% interest, how much more depends on your credit, but the interest can get pretty crazy in some instances. For this example, we are going to keep it simple and assume that you meet the credit requirements for the lower interest rate.

Here is another gut punch, as soon as you signed that paperwork at your local dealer, your new best friend sitting across from you, your vehicle, which you just agreed to pay \$35,315.00 for is now worth \$32,136.65. Your vehicle just lost \$3,178.35 in value **before you drive it off the lot!** What the freaking what! Settle in folks, it gets worse. At the end of your first year of ownership that same vehicle is worth just \$28,605.15 for a loss of \$6,709.85 since you signed your name! At the end of the second year of ownership your vehicle loses another \$4,237.80, leaving the value at \$24,367.35! By the end of your vehicle loan you have paid a total of \$38,685.00 for a vehicle that has a value of \$14,126.00!

The total depreciation of this vehicle, over a 5yr period is \$21,189.00 and you have paid interest charges of \$3,370.00 for a total cost of \$24,559.00 **before** you calculate fuel, insurance, maintenance, you know, the day to day expenses of vehicle ownership. Again I'm just throwing this out there, but for the average American these costs are going to be higher than I have shown here. There are a bunch of different ways the costs can increase, none of them are pleasant and we won't discuss them here, but you get the idea.

Before you get upset, thinking there is no hope, buck up campers! There is indeed a way to use depreciation to our advantage. What if we, instead of purchasing this vehicle new, we purchase the vehicle around the 2yr mark? Hmm, might have something here, let's check it out.

We will use this same example vehicle, but this time we'll use some different numbers. You can still get that same 5yr loan with a total borrowed of \$24,367.35. This time around your total interest payments are \$2,737.00 with a monthly payment of \$452.00. Just on purchase price alone we have saved \$10,947.65 and \$104.00 a month! At the end of your 5yr loan your vehicle, now 7yrs old, your vehicle still has a value of \$9,181.90. The total cost of this vehicle, again not including maintenance, repairs, insurance, fuel and such, is \$27,104.35 and the vehicle has a value of \$9,181.90.

Ok, let's compare the 2 ways we can purchase this vehicle. If we purchase new and keep for 5yrs we pay out a total of \$38,685.00 and the value of the vehicle is \$14,126.00 or just 36.5% of original vehicle value. If we purchase the vehicle at 2yrs old and keep for 5yrs we pay out a total of \$27,104.35 and the value of the vehicle is \$9,181.90 or 33.9% of the original vehicle value, when you purchased it. A total savings of \$11,580.65, and that number doesn't include residual value of the vehicle. Keep in mind that if the original owner keeps the vehicle for a full 5yrs the value of said vehicle is just \$14,126.00, for someone that purchased at 2yrs old the value after 5yrs of ownership, is \$9,181.90.

Keep in mind today's vehicles are very reliable and well built. With regular maintenance and upkeep, it isn't unusual to only need brakes and maybe spark plugs, or a timing belt if the manufacturer recommends, within the first 100,000 miles! Most vehicles today will easily hit the 200,000 mile mark with some love and tenderness. My point is that a 2yr old vehicle has an incredible amount of life left in it, just waiting for someone to take advantage of it.

Make no mistake about it, there will be repair and maintenance costs associated with driving an older vehicle, there is no getting around it. To keep the costs to a minimum, keep up your maintenance, have your vehicle inspected by a qualified shop at least 1 a year for vehicles up to 5yrs old, 2 times a year after. Having your oil changed at a facility that will perform a real inspection is a huge plus, keep in mind this will not be a 15min oil service. When we perform an oil change service at King's Garage, we perform a 53pt inspection of your vehicle's vital systems, including taking for a test drive to make sure we don't hear anything out of place. Another important part of our process is to grease all available fittings, this will ensure you get the maximum life out of lubricated components. We also go a step further and grease all hinges and latches, just to ensure no problems in the future.

But what about leasing?

I'm glad you asked! Leasing is a viable option for some, but not everyone. With high down payments, mileage restrictions, worry over them nitpicking you to death when you turn the vehicle in and that fact that after you are done with the lease you have exactly zero equity in the vehicle, many people don't really like this option. What a lot of dealerships won't tell you is that the crazy deals you see, there might be one of those per dealer and those numbers rely on excellent credit. If you aren't first to the punch or have excellent credit, you will have to pay more. Don't get me wrong, it will let you drive a new vehicle every couple of years, but that privilege will cost you.

See leases allow a dealership to get you into a vehicle, pay for all of the depreciation, and then sell the vehicle as a quality used vehicle after the terms of the lease. That's right, when you lease a vehicle, you are paying the depreciation for the time you are driving it. That is, again, a simplistic overview of leasing, but in essence what leasing is all about. Just a program to sell quality used vehicles. Well, it also allows manufacturers to move vehicles off of their lots when not many people can afford to actually purchase that same vehicle new due to the large costs involved. As of this writing approximately 1/3 of all new vehicle sales are actually leases, and that number goes up a bit every year as the cost of a new vehicle does the same.

Here are some good reasons to lease.

- New vehicle every 2-3 years
- Most of the time the monthly payment will be lower vs a purchase
- Good fit for low mileage drivers
- Factory warranty for duration of lease
- Can be very good for elderly or people in any situation where you may not be driving for very long, such as someone in the country for business for a limited time

Then again, here are some reasons leasing might not be right for you.

- High down payment in many cases, most of those \$0 down leases are for low option or have a very limited amount available
- Many leases have relatively low mileage limits, if you commute to work or school, head up north to your cabin, you would be surprised how fast you will hit 12,000 miles in a year.
- When turning the vehicle in at the end, you may be hit with large fees for 'wear and tear'
- Some states require more expensive insurance, with lower deductibles and a rider for original equipment replacement in the event of an accident, all options that raise your out of pocket costs.
- At the end of the terms of the lease, you have no equity, you own nothing, and either need to lease again or purchase a vehicle.

Which option is right for you?

That isn't something I can answer for you, I can just inform you. As with most things in life, this is something that you have to decide for yourself. My goal here is to hopefully give you some insight, so that you can do just that.

Everyone has a different situation financially and different reasons for looking for another vehicle. In some cases, it may make sense to purchase a vehicle new. In most cases it saves some big dollars to purchase used. There are many people that can make good use of leasing, with even more that cannot. This decision warrants some deep thought and planning on your part as a purchaser, do your homework and make the right choice for you.

New	Vehicle Age When Purchased	2yrs
\$38,685.00	Total Cost	\$27,104.35
\$35,315.00	Initial Cost/Amount Financed	\$24,367.35
\$3,370.00/\$556.00	Financing Cost/Amount Of Interest/Monthly Payment	\$2,737.00/\$452.00
\$3,178.35	Depreciation At Time Of Loan Signature	N/A
\$3,531.50/\$6,709.85	After Year 1/Total	\$3,884.65/\$3,884.65
\$4,237.80/\$10,947.65	After Year 2/Total	\$3,178.35/\$7,063.00
\$3,884.65/\$14,832.30	After Year 3/Total	\$3178.35/\$10,241.35
\$3,178.35/\$18,010.65	After Year 4/Total	\$2,825.20/\$13,066.55
\$3,178.35/\$21,189.00	After Year 5/Total	\$2,118.90/\$15,185.45
\$14,126.00	Value Of Vehicle At End Of Loan	\$9,181.90
N/A	Total Savings After 5yrs Of Ownership	\$10,947.65/\$104.00mo