

ARE VEHICLE MANUFACTURERS' LEASES A BETTER DEAL?

Joe McKenzie of the Regional District of Mt. Waddington in British Columbia recently received a lease quote of 4.4% fixed interest on a new vehicle. The quote appeared to be a much better deal than leasing through On-Line.

Purchase Price

The dealer offered to sell the vehicle for \$22,045.00. Therefore, an On-Line lease would be based upon a principal value of \$22,371.50 (\$22,045 plus a \$300 documentation fee plus a \$26.50 Personal Property Security Act registration fee); and an interest rate of 6.5%.

However, the vehicle manufacturer based his lease on a principal value of \$25,045.00, or a value \$2,674 higher than On-Line's principal value. This allowed the vehicle manufacturer to claim a low interest rate of 4.4%. The increased principal value should really have been accounted for as interest. Vehicle manufacturers generally base their lease on the manufacturer's suggested retail price (MSRP) and not on the actual selling value offered by the dealer.

Security Deposit

Vehicle manufacturers generally require a deposit. In this case, Joe was asked to deposit \$475 – which would presumably be paid back on completion of the lease. No interest was given on the deposit. On-Line does not require a deposit on a vehicle lease.

Payments in Advance

Vehicle manufacturers generally require payments in advance – and in some cases multiple initial payments. Joe's payments were in advance. On-Line's payments are in arrears – i.e. at the end of period of use.

Residual Value

The dealer was offering a lease residual value after three years of \$13,185.45. If Joe obtained a written guarantee of this value from the dealer and provided a copy to On-Line, then On-Line would be prepared to offer the same term and residual value. In the absence of such a written guarantee, On-Line would require a five-year lease with a 50% residual.

Payments

The vehicle manufacturer's monthly lease payments would have been \$397.71. The On-Line monthly lease payments would be \$346.15, for an overall saving of \$1,856.36 over three years.

The vehicle manufacturer's lease is based on 24,000 km – above which there is generally an additional charge per km. On-Line does not have usage charges.

Interest Rate

The vehicle manufacturer claims a lease rate of 4.4% fixed interest based upon their method of calculation. On-Line's method of calculation results in a manufacturer lease rate of 9.645% fixed interest.

Early Payout Penalties

Vehicle manufacturers generally require a penalty payment of the remaining interest on an early payout. On-Line is required by the Municipal Finance Authority of B.C. to allow an early payout without penalty.

Conclusion

On-Line over the last five years has never been beaten on a true comparison of leasing costs. The above vehicle manufacturer lease quote dated August 24, 2000 is better than most of the lease comparisons we have done in the past.

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**CLICK PRICING TAB FOR CURRENT LEASE RATE
(PRIME MINUS 1%)**

Prepared by: On-Line Finance & Leasing Corporation
2074 Cardinal Crescent
North Vancouver, B.C. V7G 1Y4
Phone: (604) 929-2994 Toll Free Phone: 1-877-929-2282
Fax: (604) 929-8443 Toll Free Fax: 1-877-929-8443
Website: mfalease.com