

What is Guaranteed Future Value (GFV) in Car Leasing? - Natloans

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What is Guaranteed Future Value (GFV) in Car Leasing?

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If you've ever thought about leasing a car, you might have heard the term Guaranteed Future Value (GFV). It can be a popular option among car buyers, promising peace of mind by guaranteeing the car's value at the end of the lease. But what exactly is GFV, how does it work, and what should you consider before committing to it? Let's explore this in more detail, including the pros and cons, as well as an alternative to help you make a more informed decision.

What is Guaranteed Future Value (GFV)?

Guaranteed Future Value (GFV) is a leasing arrangement that sets a predetermined value for your car at the end of the lease period. This value is determined by the manufacturer based on factors such as the car's make, model, and your agreed-upon terms (e.g., annual mileage and lease duration). Essentially, GFV gives you clarity and confidence about the car's residual value, ensuring you won't be left in the dark when your lease ends.

GFV is available only on new or demonstrator vehicles leased through a manufacturer's finance plan, not for used cars or cash purchases.

How Does GFV Work?

When you choose to lease a car with GFV, there are some key items that can impact your lease agreement:

Lease Term The length of your lease term will affect your monthly repayments. A shorter term means higher payments, but you'll be finished with your lease sooner. A longer term means lower payments, but you'll be committed for a longer period.

Whether You Contribute a Deposit While not necessary, putting down a larger deposit can reduce your monthly repayments. A bigger deposit upfront typically means less to pay each month.

Kilometres travelled Each Year The number of kilometres you plan to drive each year impacts the car's residual value. The more you drive, the lower the car's value will be at the end of the lease, so it's important to be realistic about your driving habits.

Once you've decided on these details, the manufacturer will calculate the Guaranteed Future Value , which is the agreed-upon value of the car at the end of the lease.

What Happens at the End of the GFV Lease?

At the end of your lease, provided the car meets the agreed conditions (mileage limits and fair wear and tear), you typically have the options of returning the car, buying the car or trading in the car for a new vehicle.

Pros and Cons of GFV

Like any financial product, GFV has its benefits and drawbacks. Here's a breakdown of the key pros and cons:

Pros of GFV

Predictability : One of the biggest advantages of GFV is that you know exactly what the car will be worth at the end of your lease. This eliminates uncertainty about residual values, especially in fluctuating markets.

Flexibility at Lease End : At the end of the lease, you have the option to trade in, buy, or return the car without worrying about market conditions.

Lower Monthly Payments : Because the car's future value is guaranteed, your monthly lease payments may be lower than traditional finance deals where you're paying off the entire value of the car.

Cons of GFV

Mileage Restrictions : You'll need to stay within the agreed-upon mileage limit. Exceeding the limit can result in additional fees or a lower value for your car.

No Lump-Sum Profit : Unlike some finance deals that allow you to buy the car for a lump-sum payment that may be lower than its market value, GFV locks in the future value. This means you won't have the potential to buy the car for less than it's worth.

Conditions Apply : You must adhere to manufacturer conditions, such as regular servicing and proper maintenance, to ensure the car remains in acceptable condition. Failure to meet these conditions could result in extra charges.

What is the Alternative to GFV?

If Guaranteed Future Value doesn't sound like the right option for you, there are alternatives to consider. One of the most common alternatives is a traditional car loan .

With a traditional loan, you finance the full value of the car and make regular monthly repayments until the loan is paid off. At the end of the loan, the car is yours, and you have the option to keep it, trade it in, or sell it. Unlike GFV, with a traditional loan, you are not restricted by mileage or other terms set by the manufacturer.

However, the downside is that your monthly payments may be higher, as you are financing the entire cost of the vehicle rather than just the depreciation. Plus, you may not have a guaranteed minimum value at the end of the loan term, so you're more exposed to the car's market value at that time.

Which Option is Right for You?

Choosing between GFV and a traditional car loan ultimately depends on your financial situation and preferences. GFV can be a great option if you value certainty about the car's value at the end of the lease and want lower monthly payments. However, if you want more flexibility and the potential to profit from the car's resale value, a traditional loan might be the better option.

Understanding both options and their pros and cons will help you make an informed decision about the best way to finance your next vehicle.

For more information on how to choose between GFV and a traditional loan, give the expert team at Natloans a call or [click here](#) to have our team reach out to you.

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