Vehicle Economics

Lease Money Factor and Residual Value Explained

A lease payment is built from two numbers dealers rarely explain clearly: the money factor and the residual value.

A lease payment is built from two numbers, and dealers often quote neither one directly

Ask for the "rate" on a lease and you might get a payment, not a rate. That's because a lease payment isn't priced the way a loan is, it's built from a depreciation charge and a rent charge, and the rent charge uses a number called the money factor rather than an APR. Not knowing what these two inputs are makes it hard to tell whether a lease offer is actually competitive or just priced to produce a payment that sounds attractive.

Money factor is APR in a different, smaller-looking unit

Money factor is typically expressed as a small decimal, something like 0.00125, which looks unrelated to a percentage rate but isn't: multiplying it by 2,400 converts it to an approximate APR. A money factor of 0.00125 is roughly a 3% APR. Presented as a small decimal instead of a percentage, it's easy to misread as a trivial number when it's actually a normal financing rate wearing different notation. Money Factor to APR and APR to Money Factor convert directly between the two so a lease offer can be compared against a loan on the same terms everyone actually understands.

Residual value is a forecast, and the forecast is baked into your payment either way

Residual value is the leasing company's projection of what the vehicle will be worth at the end of the lease term, and it directly shapes the payment: a higher residual means less projected depreciation to charge for during the lease, which lowers the payment, all else equal. This is why identical vehicles can have noticeably different lease payments from different leasing companies or programs, they're not necessarily disagreeing on price, they may be assuming different residual values. Lease Residual Calculator lets you check a residual assumption against your own expectation for how the vehicle will hold value.

Why this matters beyond just understanding the payment

The residual value isn't only a pricing input, it also sets your buyout price if you decide to purchase the vehicle at lease end. A residual that was set conservatively (lower than the car's real future value) can mean a genuine bargain buyout later; one set aggressively can mean the opposite. Car Lease Calculator builds the full payment from cap cost, residual, money factor, and term together, so every piece of the payment is visible rather than collapsed into one number.

What to actually check on a lease offer

- The money factor itself, not just the payment, and its converted APR equivalent for comparison against financing a purchase instead.
- The residual value and percentage, since it drives both your payment now and your buyout price later.
- Whether the payment includes taxes and fees or those are added separately.
- Whether the residual assumption seems realistic for how well that specific vehicle tends to hold value.

Related calculators

Car Lease Calculator

What will my lease payment be, and what is it made of?

Money Factor to APR Converter

What APR does this lease money factor actually equal?

Lease Residual Calculator

What is this lease's residual value, or what residual percent does it imply?