

## What is a Rent to own home?



Rent to own also known as a lease option purchase, is a concept that is becoming more and more popular with prospective homebuyers.

Rent to own a home, offers a path to home ownership and provides a streamlined way to purchase a home today even though you're not ready to do a traditional purchase at this time. There are any number of reasons why the purchase of a home has to be delayed. One of the many reasons may be to save for the down payment, or to correct a credit problem, or to sell an existing home, or to rent and live in a property before pulling the trigger on a purchase.

When a person signs a rent to own or lease option contract with the seller, they have taken on the obligation and responsibility to rent the home, along with the option of purchasing it at the end of the lease term. In a straight lease the contract is usually just to rent the home. It may have provisions for extensions after the first lease period but is otherwise simple and straight

forward.

The rent to own process can be beneficial to the seller because they can have a steady stream of rental income, while at the same time have a motivated buyer who also happens to be the renter, who will take better care of the property as they have an interest in owning the home. Now whether they purchase the home or not after the rental period is to their benefit as a result of the rent to own contract.

There are three basic components that make rent to own different from regular renting.

1. The option fee
2. The agreed upon monthly rent.
3. The purchase agreement

### **The Option Fee**

Because a rent to own contract gives the renter/buyer an “option” to purchase the home, most rent to own agreements call for the renter/buyer to pay a fee up front to have the option to purchase the home at the end of the rental/lease period. This fee represents a lock in on the price of the home when the purchase is finalized. For the seller the fee represents payment for keeping the home off the market and keeping him from selling it to another interested party during the lease/rental term. This fee is usually a small percentage of the purchase price, perhaps 1% to 5%, and is negotiable. Typically, the option fee is credited to the purchase price or as documented in the signed rent-to-own contract.

### **Monthly Rent**

How rent payments are applied to the purchase price is a matter to be decided between the seller and the buyer, and this can vary widely and must be in the contract signed by the 2 parties. Sometimes a motivated seller will allow all of the lease payments to be applied to the purchase price, in which case after a two-year lease term the buyer may have accumulated a

sizeable percent of the purchase price prior to final purchase. In other cases, possibly no part of the lease payment will be applied to the purchase price. What is much more likely is that the buyer will pay a higher rent than the market dictates, and that additional portion of the monthly rent, called a rent credit or excess rent, will be applied to the purchase price. It can also be agreed that the excess rent will be returned to the buyer. In other words, this is entirely up for negotiation. There are no hard and fast rules, but knowledge of the possibilities this presents is always to everyone's advantage.

### **The Purchase Agreement**

Once the terms of the rent-to-own contract have been negotiated, it is time for the renter/purchaser to enter into a formal written agreement with the seller. This agreement becomes the basis for the entire contractual arrangement between the two parties. It should therefore be clear and specific, and should cover every point the parties can conceive of in completing the real estate transaction.

If there is a question as to the application of security deposits, the option fee, monthly rents, late charges, home maintenance expenses, closing costs, title fees, the term of the lease and option, or any other matter that might come up between the date of the agreement and the final transfer of the property, then the method of dealing with it should be covered in this written agreement. Failure to cover these basic points in the written purchase agreement can result in misunderstandings and risk the success of the entire transaction.

Because the purchase agreement has so many issues to cover, and involves a higher level of real estate knowledge and sophistication, **it is always recommended that the preparation of this document be done by a licensed real estate professional, a real estate broker, or a real estate attorney.** There are simply too many technicalities, and too much industry specific language in a real estate contract to be considered by non-professionals to attempt to structure the lease option or rent-to-own purchase agreement on their own. Both sides, the renter/purchaser, and the landlord/seller should always seek the guidance of a licensed real estate professional or



attorney when entering into a rental or purchase agreement.

SPECIAL NOTE: [Foreclosure.com](http://Foreclosure.com) has a few thousand VALID Rent-To-Own listings, where the owner is willing to enter into a Rent-To-Own contract with a potential buyer. When looking at pre-foreclosure and foreclosure listings for possible Rent-To-Owns, do understand that you cannot do a Rent-To-Own contract with the current owner that is in the foreclosure process. You will need to find an investor that is willing to do an approved Short Sale on the pre-foreclosure or purchase the foreclosure from the bank and enter into a Rent-To-Own agreement with you.

You can set up free email alerts to notify you of the latest home listings as they become available.

Foreclosure.com  
350 Camino Gardens Blvd., Suite 102,  
Boca Raton, FL 33432, USA  
[www.Foreclosure.com](http://www.Foreclosure.com)