



Should You Consider Renting-to-Own?

While today's housing scene is often called a "buyers' market," for those with poor credit records or few liquid assets there may not be much of a market at all. Recently rising tides of foreclosure among subprime or bad credit borrowers have created somewhat of a credit crunch for those now seeking mortgage funding. If you count yourself among this group of consumers, you may want to consider "renting to own" as a way of repairing your credit, building your assets, and getting into a home.

How does it work?

Instead of buying a home outright, with this plan you create and sign a lease-to-own or rent-to-own contract. This allows you to start living in the house now as a renter, and gives you the option to buy the property at a predetermined price in the future. The contract will usually stipulate a purchase option period, which is typically for three years or less. An option fee of between one and three percent of the home purchase price is due at the signing of the loan. If the renter ends up buying the house, this option fee is credited toward the balance of the home price. Until this option period expires, the renter pays the owner monthly rent as well as an extra rent premium that will also go towards the purchase price when the renter buys the house.

Why is it a good idea?

This is often seen by potential buyers as a great way to start living in a home immediately even if they cannot qualify for a home loan at the time because of poor credit or a lack of a down payment. They can use the purchase option period to try to bring up their credit scores by lowering debt and making their credit payments on time. At the end of the option period they will have hopefully improved their stats enough to get a mortgage loan to buy the home. While renters will lose the option fee and extra rent premiums if they do not end up buying, they do get the benefit of trying out a home for several years before buying, something traditional buyers are not afforded. This way if the renter discovers major problems with the home during the option period, he or she can walk away from what would have been a bad and costly mistake.

What should you look out for?

If you decide that this type of arrangement would be a great fit for you, make sure you do your homework and that the contract is mutually beneficial for you and the seller. It is important to read through the details of the lease and that you understand exactly what it requires of you. It would also be wise to have the home inspected before you sign the contract. If you truly intend to buy, you will want to know ahead of time if the home is in good condition and worth the asking price. Once you are into the contract, make all your rent payments by check so that you can easily track your payments and provide proof of them when it comes time to buy the home.

And finally, before you decide renting-to-own is your only option, check around with lots of different mortgage lenders. You may have been turned down by one, but there may actually be others that will qualify you for a home loan. If you truly do not have the qualifications for a home



loan, renting-to-own may be the perfect option for you!