

Rent-to-Own Agreements

Most homeowners use a mortgage to finance the purchase of a new home. But for those who lack a good credit score or cash for a down payment, the traditional route to homeownership may be fraught with potholes. There may be a solution, however, with the right seller and the right property.

RENT-TO-OWN AGREEMENTS

Rent-to-own agreements are where the buyer agrees to rent a home for a certain amount of time with the option to buy it before the lease expires, Investopedia says. They consist of two parts: The standard lease agreement and the option to buy.

The buyer may also be required to pay the seller a one-time, usually non-refundable fee called the option fee, option money or option consideration. This fee gives you the option to



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REAL ESTATE 101

Finding a Real Estate Attorney

Real estate attorneys can be valuable in any transaction, but are especially important in complex agreements like lease-option or lease-purchase agreements. Read more advice on finding the right attorney for your situation from Rocket Mortgage: rocketmortgage.com/learn/real-estate-attorney.

buy the house at some date in the future and usually ranges between 1% and 5% of the purchase price.

LEASE-OPTION VS. LEASE-PURCHASE

Lease-option contracts give you the right but not the obligation to buy the home when the lease expires. If, when the

lease is up, you decide not to purchase, the option just expires and you can walk away from the property. With a lease-purchase agreement, you could be legally obligated to buy the home at the end of the lease, whether you can afford it or not. Investopedia recommends having a qualified real estate attorney

review any agreement before you sign it.

AGREEING ON THE PURCHASE PRICE

Make sure any agreement specifies when and how the home's purchase price is determined. The buyer and seller may agree on a price when the agreement is signed

or the price may be determined when the lease expires. Some buyers may prefer to lock in a purchase price, especially in areas where the market is particularly hot.

During the lease term, you'll pay rent to a landlord. Your agreement will stipulate whether any of that applies to the eventual purchase price. If the rent does apply, look for that rent to be higher than the going rate for your area to make up for the rent credit you receive. The option money may also be applied to the eventual purchase price. Read your agreement thoroughly so that you understand what your obligations are.

HOME MAINTENANCE

Your agreement should also stipulate who is responsible for maintaining the property during the term of your agreement. Sellers may choose to cover costs they would generally be responsible for, Investopedia says, such as homeowners association fees, taxes and insurance. Sellers should get a renter's insurance policy of their own and also make sure they know what maintenance and repair requirements are their responsibility. Some jobs that may be the buyer's responsibility may include mowing the lawn, cleaning gutters and more.



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HOMESWISE GLOSSARY

Transaction broker: A transaction broker, also referred to as a facilitator, coordinator or contract broker, is not a representative or agent for either the buyer or the seller. The job of a transaction broker is to help both the buyer and the seller with the necessary paperwork and formalities involved in transferring ownership of real property.

SOURCE: MLS.com

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