

RentToOwnQuest

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BEGINNER'S GUIDE
TO RENT TO OWN

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Do You Want to Buy a Home but have Poor Credit or Little in Savings?

If you're reading this guide, you're likely considering rent to own (also commonly referred to as "lease to own") properties because of one of just a few reasons.

Many people become interested in renting to own due to: having a poor credit history, income levels not yet being where they need to be to purchase, or having no down payment saved up yet.

While there are a couple of other less common reasons, those are generally seen as the main three among families renting to own. If you fit into one or more of these categories, that's great, because renting to own is quite possibly the ideal way for you to enter into home ownership.



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HOW IS RENT TO OWN ACTUALLY DIFFERENT THAN RENTING?

When you enter into a rent to own agreement you are essentially renting the property as you would with an ordinary rental home or apartment. Except, at the end of the term specified in the lease, you are given the opportunity to purchase the home. The purchase price is agreed upon when you first sign your agreements and move in to the house.

With a rent to own you may pay slightly higher rent each month to the homeowner. But one of the big benefits of [rent to own homes](#) is that a portion of the rent you pay each month is credited back to you at the closing table when you purchase the home. This “rent credit” is applied towards your down payment, and allows you to budget for a smaller amount that you will need to bring to the closing.

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HOW DOES THE PROCESS WORK?

When you sign the lease for your new home you'll normally also sign an option contract. Sometimes these will be combined with the lease as one agreement, and other times they will be separate documents.

There are two different types of rent to own contracts that you'll encounter:

- ▶ Lease Option – This is the most common type of agreement and gives you, the renter, the option to purchase the home at a future date in time. This date, as well as the price and other terms of the sale are agreed upon from the beginning.
- ▶ Lease Purchase – A less common option contract, the lease purchase is similar to the lease option, except for the clause that the renter is obligated to purchase the home at the end of the lease term. This provides much less flexibility for you as the renter.

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WHO SHOULD CONSIDER RENTING TO OWN?

Now that you have a solid understanding of what renting to own is, and what the process entails, you need to take the time to decide whether it is a practical option for you. For many individuals and families in a number of situations, simply renting is a more feasible choice.

First off, anyone who decides to enter into a rent to own contract must:

- ▶ **Want to Own a Home** – This isn't a short process, so you must have the goal of home ownership in the long-term, not the near future.
- ▶ **Be Committed and Determined** – For most hopeful home-buyers, the main reason they enter into a rent to own situation is because of an inability to get a traditional loan. In this case, you must be committed and determined to improve your financial situation within the next couple of years.

Become Disciplined with Saving – While some of the rent you pay each month is credited towards a down payment upon the purchase of your home, you will still likely need to save more for the closing table.

If those are three qualities that you are willing to embrace, then you need to ask yourself a few questions:

- ▶ Do you plan on living in the same area or neighborhood for a while?
- ▶ Do you know how much space you're going to need in the future?
- ▶ Do you know all of the criteria you'll need for a home in the future?

If you can't specifically answer any of those questions, you should consider whether renting may be your best option until you are able to focus more on your future plans. If you can answer yes to all three criteria, then finding a rent to own home could quite possibly be the idea option for you.

A word to the wise though - the number of homeowners willing to offer rent to own is much smaller than the traditional number of homes for sale or rent. This means that finding "the perfect" home can be a long and drawn-out process, and quite possibly not one for those who are picky.

THE GOOD AND THE BAD ABOUT RENTING TO OWN

Just like everything else, there are pros and cons to renting to own. For most people, the benefits of an option contract far outweigh the potential negatives, but it is important to examine each thoroughly and apply them to your own criteria and judgment.

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BENEFITS OF RENTING TO OWN

Renting to own is the perfect deal because it provides an ideal situation for both sellers and renters/buyers for a myriad of reasons. Just a few of the benefits of rent to own properties to you would be:

- ▶ It is great for buyers with poor credit or who would otherwise not qualify for a traditional home loan.
 - ▶ A portion of your monthly rent payment goes towards your home's purchase price as a "rent credit."
 - ▶ Because a portion of the monthly rent payments you make will be credited to you at closing, it is easier to budget for the smaller additional down payment needed.
 - ▶ You have the ability to really get to know the neighborhood, or the home itself, before committing to purchase.
 - ▶ Since you generally have a couple of years before you need to secure financing for the home, you have time to build your income level and [improve your credit rating](#).
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- ▶ With a [growing housing market](#), as we are seeing across the country right now, locking in a set price on a home that is appreciating could mean purchasing it under its market value in a couple of years.

THINGS TO WATCH OUT FOR

While there are numerous reasons that renting to own is a good arrangement, there are still a few things that you need to be aware of or watch out for:

- ▶ You will need to pay an “upfront option fee” when you secure the option to purchase the property – this is often at the lease signing, and will be a percentage of the home’s price. This is normally refunded to you at closing but forfeited if you decide or are unable to purchase the house.
- ▶ Renting to own in a market with home prices falling will mean that the home could be potentially valued at less than the amount your option is for, and walking away would mean you forfeit the money you’ve paid in over the course of the lease.
- ▶ Be sure to pay careful attention to the agreement. While most sellers are honest, some may try to sneak hidden and one-sided terms in there. Having a real estate professional or lawyer examine the lease and option contract is your best bet.
- ▶ In the end, when it comes time to purchase the home, if you’re still not able to acquire a loan you will lose the money you’d built up with the seller towards the down payment.

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FINDING RENT TO OWN HOMES

Once you're fully aware of the rent to own process and all of the pros and cons of it, it's time to proceed to the next step – finding the right rent to own property for you. Homes that you can rent to own can be classified in two different ways – those listed as rent to own and those which are not currently listed as rent to own.

Homes Listed as Rent to Own

Searching any large online database like Rentuntilyouown.com, Craigslist.org, or our site at RenttoownQuest.com is sure to provide a number of different properties which the owners are interested in offering rent to own.

There are a number of reasons they would want to do this, with one common reason being homeowners who want to move but can't afford two home payments. If they're not currently able to find a buyer for their home, this arrangement allows them to purchase their new property while offering their old home as rent to own to cover their mortgage payment until the closing date.

These owners are usually pretty informed on the process and have all of the specifications they are looking for such as lease term, price, monthly rent payments and the amount applied to the down payment already determined. Even though most sellers are on the level, be sure to have their proposed agreements professionally checked over before signing anything.

Homes Listed as Rent to Own

For someone who does not necessarily have the need to move in the immediate future, and is willing to wait for the “ideal home”, contacting homeowners offering their homes for rent with the proposition of renting to own can pay off. This tactic gives you the chance to browse the full market of rental properties to find the ones which most perfectly fit your needs. In this scenario, you may find many sellers asking, [how does rent to own work?](#)

While this approach will garner you a good number of “no's”, persistence and dedication will often pay off in the long run, allowing you to find a home more suited for you. Not only can this method be applied to rental properties, but can be used with homes currently listed for sale.

WHAT YOU STILL NEED TO DO AFTER FINDING A HOME

You may think that once you find the optimal rent to own property that your hard work is done. Although, for most people, this is just the beginning. For those renters/buyers with financial issues preventing them from acquiring a loan, now is the time that they need to work extra hard to improve their financial health.

Ensure Income Meets Your Goals

If you're entering into a rent to own agreement because your income is not at the level it needs to be at in order to support the costs of home ownership, you need to begin increasing it. For most people, this is not an overnight process, and the sooner you can prepare to increase your monthly monetary intake, the better. This could involve finding new, higher-paying positions in your career, or taking courses or training to increase the salary at your present workplace.

Make Any Credit Improvements Needed

Perhaps the most common reason that people are not able to qualify for a home loan is because of poor credit. Especially in today's society, bad credit is extremely rampant. The good news is that most of the time, this is an easy problem to fix with some dedication. You must be committed to improving your financial situation, however, even small mistakes can hamper any improvements you make along the way.

A few ways that you can begin to improve your credit include:

- ▶ Pay down your debts, starting with past due and maxed-out balances.
- ▶ Make consistent payments to all accounts, every time a payment is due.
- ▶ Establish a positive credit history among accounts in a number of different categories such as utilities, credit cards and personal loans.
- ▶ Research through your credit history to find and dispute any incorrect negative entries with [credit bureaus](#).

WHAT YOU STILL NEED TO DO AFTER FINDING A HOME

Save for Your Pending Home Purchase

If you are entering into a rent to own option contract because you do not currently have the sufficient down payment to purchase a home, [budgeting for your future transaction](#) should be at the forefront of your mind. While a portion of your rent will be going towards the down payment when you close on the deal, you will still likely need other money to put down or for various closing costs. Speaking with a real estate or mortgage professional will often give you a rough idea of how much you'll need to have saved down the road. Getting estimates of the amount you will need to save, and knowing how long you have to save it, will allow you to calculate how much money you'll need to put aside each month.

While this sounds like an easy commitment, it is important to stay focused. If you aren't able to keep up with your monthly budget, you could find yourself short on cash when it comes time to close. This could quite possibly mean losing out on the opportunity to purchase the home, and forfeiting the money you've been credited during the term of your lease.

It is important for you to look at you and your family's current and anticipated future situations before deciding to pursue a rent to own property. This isn't the right type of arrangement for everyone, but can be great for those who are solidly prepared to rent to own. Renting to own can provide time to repair any personal issues preventing you from purchasing a home right now, but it does not mean you won't have to work hard to get there over the next couple of years.

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