

# Rent-to-own homes: Are they a good idea?

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Ask a Lender

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## Key Points

### Tips for rent-to-own arrangements

- Consult an attorney. Understand your rights and responsibilities.
- Talk to the neighbors. Ask about the property — for example, does it ever flood?
- Consider all your options. Could you build your credit so you can obtain a mortgage and purchase a home outright?
- Get the property appraised to ensure it's being sold for a fair price.
- Get a property inspection.
- Perform a title search to ensure there are no liens or mortgages against the property.

Kathy Haan purchased her home in Denver, Iowa, through a rent-to-own agreement. But it wasn't an easy — or painless — process.

“For us, it was a way to get our foot in the door and purchase a home,” she said. “But in looking back on the situation, there's so many things I would have changed. Meeting with my lawyer recently, he said, ‘This was not a good deal for you.’”

### **How does rent-to-own work?**

Rent-to-own is also known as lease-to-own, lease option or lease with option to purchase. These arrangements allow people with poor credit, or people having difficulty saving for a down payment (/advice/down-payment/), to live in a home while determining how to obtain a home mortgage (/advice/home-mortgages/) to purchase it.

Typically, in a lease-to-own arrangement, the buyer makes a down payment to the seller that can be applied to the purchase price if they later buy the property. The price is usually locked in ahead of time — even if the market crashes and the value of the home plummets, buyers must pay the previously agreed upon price or forfeit their down payment. Additionally, a portion of the monthly rent may be applied to the purchase price if the buyer ultimately purchases the home.

Although rent-to-own homes have traditionally been offered by individual sellers, in recent years companies such as Home Partners of America, HomeLPC and Trio have offered an alternative rent-to-own model. These companies purchase a home of your choice and then lease it to you, giving you the option to purchase it from the company at a predetermined price before the lease period ends.

“[Rent to own is] generally really good for people who don't have established credit,” said Thomason Bush, a business attorney based out of Lubbock, Texas, who has represented both sellers and buyers in rent-to-own arrangements, and who was not involved in Haan's home purchase.

But there's potential for abuse, Bush cautions. “The people that are involved in these types of transactions are generally lower-income and they have less knowledge of what their rights are under these agreements, and even less ability to consult with an attorney if they're in a situation where the seller is taking advantage of them or there's actually a good faith dispute under the contract,” he said.

Rent-to-own homes sometimes have had a reputation for being a cash-grab for the seller, according to Bush. Some less-than-honest sellers might draft contracts in such a way that buyers can be evicted for minor offenses, such as a single late payment, he said. The buyers then lose out on the opportunity to buy the home and don't get their down payments back.

“If the individuals didn’t have good representation to come in and speak for their rights, and say, yes, they do have rights to the property under the agreement, they would get evicted by the justice of the peace, and then the seller would move on to the next mark for his little scam,” Bush said.

## Cautionary tale

Three years ago, Haan, who runs an online business called Idyllic Pursuit, inherited money from her father that she and her husband planned to use as a down payment on a house ([/advice/busting-the-myth-you-dont-need-a-20-percent-down-payment/](#)). But she didn’t have good credit, and a rent-to-own opportunity seemed like a way to get into a house while building her credit up for an eventual purchase.

Haan found an opportunity on Facebook, where the owner of a property that wasn’t selling had advertised it as a rent-to-own arrangement. The purchase price was \$118,000; Haan put down \$7,300, which would eventually go toward the purchase price if she exercised the option to buy. She paid \$700 per month — which was raised to \$715 per month after the owner’s property taxes went up — none of which went toward the principal on the home. Additionally, Haan was responsible for paying for repairs to the property.

If Haan wanted to purchase the property, she had to do so by the end of the third year, according to the agreement with the owner, she said. If she and her husband decided not to buy it, they would lose their deposit.

Last year, the property flooded. Around that time, the owner began pressuring Haan to buy the property, even though she still had a year until she was contractually obligated to exercise that option, she said. After Haan retained an attorney, the owner used the damage from the flood and other repair issues to have her evicted. She believed it was retaliation for hiring an attorney.

## Lessons learned

In the end, Haan was able to secure a mortgage from a local credit union and buy the property. But she learned several difficult lessons about rent-to-own homes. Knowing what she knows now, Haan said she wouldn’t have pursued a rent-to-own arrangement, even with her credit issues.

“I would have tried to get approved with a lender ([/find/mortgage-pre-approval-lenders/](#)), then worked on raising my score based on what they told me,” she said. “I could have paid off some little stuff that would have raised my credit score ([/advice/how-to-boost-your-credit-score-for-a-mortgage/](#)) enough to qualify for a loan.”

If you do decide to pursue a rent-to-own agreement, however, legal advice is essential, she said. “My best advice would be, if you’re going to do this type of arrangement, make sure that you take it to a lawyer,” she said.

Another piece of advice Hann offered: Talk to the neighbors. Not only can they alert you to any issues with the owner, they also can vouch for the property. “The neighbors usually know if there’s anything wrong with the house,” she said. For example, neighbors could have warned her about the flooding issues associated with the house she bought, she said.

Other ways to protect yourself before signing a rent-to-own agreement including getting the property appraised to make sure it’s being sold at a fair price, and getting the property inspected to make sure it’s not in need of major repairs — an especially important consideration if the agreement makes you responsible for all repairs to the property. Another good idea is to perform a title search to ensure there are no liens or mortgages against the property.

## When things go wrong

What can buyers do if their rent-to-own arrangement goes wrong, but they can’t afford an attorney?

Bush, the Texas attorney, said low-income buyers can seek advice from a legal aid organization in their state. Such organizations offer free legal assistance to low-income individuals. But not all organizations can help with rent-to-own scenarios, he said.

“It really comes down to living in an area that has a legal aid organization and hoping they have the right types of grants and things that can take these types of cases,” he said.

Prevention can save you money and prevent headaches down the road. Although it can be difficult to pay for it, one of the best things a buyer can do is consult with an attorney to go over the rent-to-own agreement before signing it, Bush said.

“The people that generally go in with a lease purchase or lease option ... it’s hard for them to put together the money for the down payment on the home, let alone a few hundred extra to go and consult with an attorney and either have them review the lease purchase agreement ... or to have them draft something that’s going to outline their rights,” he said. “It’s kind of a tough situation, but it is the best-case scenario for them to go [consult an attorney] before something happens. It could save a lot of effort in the long run.”

For Haan, rent-to-own should be an option of last resort, she said.

“Don’t get too excited and dive in headfirst,” she advised. “Explore everything first and then, if this is your last option, choose it.”






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