



Rent to Own Housing

A rent to own housing agreement is not a good idea unless you are in very good financial condition and know that you will be so for the foreseeable future. There are many disadvantages and pitfalls that may put you in a worse situation if you do not already have enough income that will continue into future years. Although it is a traditional goal for everyone to own their own home, you should carefully read and consider the information provided in this article before going ahead with a rent to own agreement. It may work for some people, but not for everyone, especially not for those with limited income and no means to make more income.

This article will first give some definitions and a general explanation of what the concept of rent to own housing is about, and will then outline the factors and considerations that need to go into your decisions.

This article is not intended as legal advice about your particular situation. It is almost always in your best interests to consult a lawyer before entering into a Rent to Own or Lease with Option to Purchase contract. These are not regular leases that you may be accustomed to signing. They involve potential purchase and ownership of a home, with many legal issues to be considered.

What is a “Rent to Own Housing” contract?

“**Rent to Own**” is also sometimes called “**Lease Purchase**.” Many contracts use Lease Purchase as the title, but it’s basically the same thing as Rent to Own.

It means that you are entering into a contract to rent a house or mobile home, and that you will someday own it if you and the landlord/seller fulfill the terms of the contract. The contract should set out the specifics of what must be done in order to become the owner after you’ve rented for a certain period of time. The details that should be in such a contract are discussed later in this article.

The typical rent to own contract says that you will pay monthly rent for a certain period of time, that some or all of the monthly rent will be applied to the purchase price, and that you will someday become the owner. Until the time comes for you to be the owner, you are considered to be a tenant with a lease, and the usual landlord-tenant laws will apply to your tenancy.

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The contract may require you to pay an up-front amount in addition to the monthly rent and deposit. This may be similar to a down payment, or it may be considered payment for an option to purchase. (See the next section.) The contract may say that you will be renting for a certain number of months or years, and at the end of that time you will have to pay off the full amount owed to purchase the home.

What is a “Lease with Option to Purchase?”

A “**Lease with Option to Purchase**” is slightly different from a regular Rent to Own contract.

A Rent to Own contract usually just says that part or all of the monthly rent payment will be applied to your eventual purchase price of the home.

A Lease with Option to Purchase, on the other hand, means that, in addition to your monthly rent, which may be applied to the purchase price, you agree to pay an amount of money just for the option to buy the home at some time in the future. This can be any amount, as agreed by the parties, but may be as little as \$1,000 or as much as \$10,000 or more, just by way of example. There is no required set amount.

What you are buying is the “right of first refusal.” This means that, when you pay the agreed amount for the Option to Purchase, the landlord/seller can’t sell it to someone else without first giving you the opportunity to buy it. (As children, we may have said “I’ve got *dibs* on buying this house.”)

The price you pay for the option may or may not be applied to the purchase price of the home if and when you decide to exercise your option to buy it. That depends on what you and the landlord/seller agreed to in the contract.

The price you paid for the option is rarely refundable to you. If you choose to not exercise your option to buy, or if you’re unable to do so, you will most likely lose the money you paid for the option.

There may be a deadline within which you need to decide whether to exercise your option to buy. That may be a year, a few years, or more. Again, this depends on what you’ve agreed upon. If you do not exercise your option within the deadline, you will probably lose the money you paid for the option.

These are all very important things to think about when you consider arrangements such as this. Be realistic when predicting what you’re able to do right now, and what you’ll be able to do in the coming years. Look at your current and your future financial situation. Do not overestimate your ability to make it work.

The rest of this article will focus on Rent to Own contracts that do not include an Option to Purchase. If you have more questions about a Lease with Option to Purchase, consult a lawyer and, if necessary, someone who can talk with you about the financial aspects.

What terms should be in a Rent to Own contract?

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You and the landlord/seller can negotiate on what terms to include. However, to protect yourself and to ensure a clear and enforceable contract, here are some recommendations, at a minimum:

1. The names of all the current owners, yourself, and anyone else who will be renting to own with you.
2. A legal description of the home you're renting to own. This should be the same as the legal description that would be used in a deed to the house.
3. Total purchase price of the home.
4. Monthly rental payments and how those payments will be applied toward the purchase price.
5. The number of months that are considered to be the rental period, after which you will need to pay off the balance of the purchase price. This is sometimes referred to as a "balloon payment."
6. As an alternative to #5, some rent to own contracts simply state the purchase price and the monthly rental payment, and then say that the entire monthly payment is counted toward the purchase price, beginning with the very first month. The purchase is complete, and you become the owner, when you've paid enough total months worth of rent to equal the purchase price. You are considered a tenant until you've made those total payments. For example, if the purchase price is agreed to be \$75,000, and the monthly rent is \$750, you would become the owner after paying 100 months of rent (8 years and 4 months).
7. Any interest or finance charges that may apply when it changes from a rental to a purchase.
8. Exact dates and deadlines to be observed.
9. Whether any money paid "up front," such as buying an Option to Purchase, is refundable to you if the deal is not finalized.
10. What happens in case of "default," that is, any of the parties fails to meet their obligations.
11. Any agreement as to repairs, renovations, and maintenance to be done, e.g., who is responsible, and if it's you, whether you'll be given credit toward your rent or purchase payments.
12. Who is responsible for real estate taxes and insurance. This is usually the owner, at least during the rental period.

General considerations for Rent to Own.

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1. Always get it in writing. Do not simply make an oral agreement with someone that you'll eventually own the house if you pay rent for a certain amount of time. Get it in writing no matter how well you know the person, and even if it's a family member.
2. Make sure the written contract is well-drafted and includes all the essential terms. It is generally not a good idea to simply sign an agreement presented to you by the landlord/seller. Many of these are not complete, accurate, or fair to you. It is best to have a contract that has been drafted or reviewed by an attorney of your choice. Remember that you are entering into a very significant transaction which goes beyond other leases you may have had. You are entering into the eventual purchase of a home, which is a major life decision with considerable legal and financial aspects.
3. Do you have the financial means to make buying the home a reality? You need to think not only about paying the rent for the near future, but the total purchase price when the time comes to pay it off. This may be necessary within a very short time, such as a year or a few years. The time goes by quickly. Will you have the financial means to make the payments when that time comes? This may include taking out a large mortgage against the home. You may think that you'll have time to arrange for all of this while you're renting and living in the home, but be honest with yourself about the reality of the situation. If you can't complete the terms of the contract, any payments you've made may be lost.
4. Does the landlord/seller have good title to the home that is free of other mortgages, liens, unpaid taxes, or other "encumbrances?" If he does not, then you may be taking the home subject to those encumbrances, or you may have to pay them off in order to get clear title. That means you may not end up with a free and clear title even if you make all the payments and meet all the conditions under the rent to own contract. Do not sign an agreement until you are certain the landlord has clear title. Any time you are going to buy a home or other real estate, you should always have a title examination and opinion done by a lawyer or other qualified person. This includes rent to own arrangements, and leases with an option to purchase.
5. Are there other owners of the house in addition to the landlord you're dealing with? If so, they should be part of the contract. If they're not, they may be able to block you from completing the purchase and getting clear title. The names of other persons who have a legal interest in the home would also be revealed by a good title examination.
6. Make sure that your rent payments (or at least a portion) are going toward the purchase price. If not, then you're not really making progress toward the purchase.
7. Be clear on what happens if you miss a monthly rent payment. In a straight rental agreement, the landlord would have legal grounds to evict you by court action. Will this be the case under your rent to own contract? Will a missed payment result in cancellation of the contract? If so, you will have lost everything you've worked towards.

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8. Treat this as if you are buying the home, not just renting it. After all, if that's your goal, you should be approaching it with the same careful planning, research, and investigation as you would when buying a home. It is a big commitment and not to be entered into without "doing your homework."

Can my landlord and I agree that I will own the home if I do some repairs, renovations, remodeling, or fix-up of the house?

Yes, but such arrangements usually present a considerable number of serious problems in addition to the other issues discussed in this article.

First, as with all Rent to Own contracts, get it in writing. Do not rely on a handshake or oral agreement, no matter how well you think you know the owner.

Second, be very clear in the written agreement as to what conditions must be met. Here are some of the things that should be considered:

- What is the purchase price of the house?
- What is the formula for determining how many hours you need to work in order to meet that purchase price? What is the dollar value of your labor, and the dollar value of the work put in by others who may be helping you?
- Do you need to make payments in addition to doing the work on the house, such as monthly rent, or a lump sum purchase payment even after you've done the work? In other words, how much of the total purchase price is covered by your work and materials?
- What are the specific repairs, renovations, and remodeling that will be done?
- Who makes the decisions as to what will be done, how it will be done, what particular materials will be used, etc.? Does the owner have final approval, or do you have flexibility as to what you want to do?
- What is the deadline for getting all the work done?
- What happens if you don't meet that deadline?
- Who is responsible for buying the supplies and materials?
- If you put in some of the work and materials, but the deal falls through and the work doesn't get completed, will you be reimbursed for your labor, materials, and supplies, or does the landlord/owner get the advantage of all your efforts with nothing coming back to you?

Are there other things to consider when renting to own a mobile home?

You should make sure that the person you're dealing with is the actual owner of the mobile home. If they don't really own it, then they can't pass on title to you. Ownership of a mobile home is proved by having a valid title to the home. Mobile homes have titles similar to motor vehicles. Go to the Department of Motor Vehicles to see whose name the title is registered in. Get the identification number before going to DMV. That number is usually somewhere on the frame of the mobile home.

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Is the mobile home located in a mobile home park? If so, make sure you can rent the lot to keep it there. If you don't want to keep it in the park it's located in, make sure it can be legally moved, and that you can afford to move it. There are rules and regulations about what kinds of mobile homes can be moved (often depending on their age), what fees need to be paid in addition to paying the movers, and other conditions that must be met. You can contact the DMV for information, or they may be able to refer you on to another agency for help with these questions.

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