Title:
Creative Financing Options

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542

Summary:
With today's rising prices it's all most people can do to stay afloat financially. So how does a young couple save enough money to break into the housing market? Sometimes you have to think outside of the box and come up with creative financing options. One such example is Lease-to-Own, or Rent-to-Own house purchases.

Keywords:
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Article Body:
With today's rising prices it's all most people can do to stay afloat financially. So how does a young couple save enough money to break into the housing market? Sometimes you have to think outside of the box and come up with creative financing options. One such example is Lease-to-Own, or Rent-to-Own house purchases.

Basically, in this scenario, the landlord and the tenant come up with an agreement to purchase the house within a designated period of time (usually 3 years or less), for a specific price. An option fee of 1 to 5% of the price is credited to the purchase price and a premium is added to the rent payment to accumulate a deposit. If the buyer backs out of the purchase agreement they lose both the option fee and the rent premium.

Typical Rent-to-Own Contract Features

The rent and home price are usually established and documented based on market value plus any negotiation between the buyer and seller.

A rent-to-own contract will have an option period where the borrower can build equity while living in the home. Once the option period expires, the borrower is counting on successfully qualifying for a mortgage to purchase the home. It is imperative that the borrower has a good idea of their ability to assume a mortgage; speak to a lender before entering on a rent-to-own agreement to have your financial situation examined. You may only have to improve your credit rating, and this can be accomplished by making timely minimum payments any loans or credit cards each month.

Often a lender will want to see that an amount above the market rent price has been set aside. This ensures that the seller is not providing the borrower with a kickback by artificially inflating the selling price. Usually the bank will also request an appraisal for this reason.

If at the end of the option period, the buyer discovers problems with the home, it may be cheaper to walk away from the deal than purchase a house which may develop into a money pit.

The selling price of the home is agreed upon at the beginning of the option period. This means that after a 3 year option period if houses prices drop the borrower may request a down payment based on the new value. For instance, a 5% down payment on a $225,000 home would be $11,250. If the home drops 3% in value, or to $218,250, the 5% down payment from this would be $10,912 - bringing the maximum loan amount to 207,338. You need $225,000, now you have to make up the difference.

However, the price may indeed go up 3% in price and the seller is out the amount of the increase. It is for this reason that some contracts are drawn up with no final price quoted, just specifying the house will be sold at fair market value at the end of the option period.

There are shady sellers out there who will create a contract with an easy escape clause, such as the right to evict a tenant with only 3 days notice. It is in the buyer's best interests to have their contract reviewed by a lawyer before entering into a binding agreement. Also, pay your rent on time and do not give the seller any opportunity to renege on the agreement.