

How to Buy a House Using a Lease Option

If you're ready to buy the home of your dreams, but your credit or savings isn't quite ready yet, a lease with option to buy (often simply called a "lease option" or, somewhat inaccurately, "rent to own") may help you move in. Lease options, in which you lease (rent) a property and have the option to buy the property at the end of the lease term, can allow you to control a home that you want even if you don't have enough money for a down payment yet. A lease option may also be helpful if you need some time to improve your credit before you can get a good mortgage rate.

- 1. Determine if a lease option is a good option for you.** Lease options can be useful home-buying tools, but they're not for everybody. In fact, some of lease options do not end with the lessee (the renter or prospective buyer) purchasing the home, and while that's sometimes for a good reason, ask yourself a few questions before you decide to pursue a lease option in general or before you sign one on a particular house..
- 2. Can you afford the option money?** The option money or option fee is required for a lease option contract to be valid. This upfront payment may be quite small (equal to one or two month's rent, for example), or it may be 3-5% of the purchase price. All of this money should go toward the purchase price or down payment on the home if you decide to buy the house at the end of the lease term, but unlike a security deposit, you don't get the option money back at the end of the lease if you can't purchase the house or decide not to.

- 3. Do you plan to stay in the area?** You should be fairly certain that you want to buy the house at the end of the term. If you don't, you lose your option money that you've paid in your monthly payments.
- 4. Will you be able to secure financing at the end of the lease term?** Most of the time, the buyer will need to find his or her own financing by applying for a loan. A lease option can help you get a more favorable loan than you otherwise would be able to, but it's no guarantee, so you'll want to be reasonably sure that you'll be able to qualify for a loan at the end of the term.
- 5. Can you afford the monthly payments on the lease.** Typically (but not always) the monthly payments on a lease will include the fair rental value plus option money that will go toward the purchase of the home. Thus, the monthly payments under a lease option will usually be more than you would pay if you were renting the same house.
- 6. Find a house you want to buy.** Keeping the above considerations in mind, look for a house that you like and that you can afford. There are some companies that specialize in lease options, and in some places government programs will buy a house for you and then offer you a lease option. More typically, however, you can just find a house for sale and see if the owner will consider a lease option.
- 7. Negotiate the terms of the lease option.** The purchase price, term of the lease (usually anywhere from 6-24 months, but can sometimes be as long as 10-years), the amount of initial option money, and the amount of the monthly payments that will go toward the purchase price will all be negotiable.

- 8. Make monthly payments.** You will make monthly payments just as you would make rent payments. In many cases, however, a portion of the monthly payment will be designated as option money. This money will go toward the purchase of the home if you decide to exercise your option to buy. It may be a small percentage of the monthly payment.
- 9. Make improvements on the home.** It is probably in your best interest to try to take care of these things. By increasing the value of the home with improvements during the lease term, you earn equity (so-called "sweat equity") in the home because the agreed-upon purchase price stays the same. This increased equity may help you get a more favorable loan if you exercise your option to buy. In essence, by increasing the value of the home you are increasing your down payment.
- 10. Apply for a loan.** Don't wait until the last minute to apply for a loan. You should begin your application process no less than 45-60 days in advance of the end of the lease, and to be safe you should probably start a full two months or more before you need to buy the house. A lease option will qualify you for a refinance loan with some lenders, and these are usually cheaper and quicker to process than new purchase mortgages, but in any case it's essential to have a mortgage ready to close on the home by the date specified in the lease option contract.
- 11. Close on the home.** If you've lined up your financing and decided to exercise your option to buy at the end of the lease, congratulations. You are now a homeowner.