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A RENT-TO-OWN PRIMER

JustRentToOwn.com is a Rent-To-Own Properties search engine and the primary source for everything Rent-To-Own. We provide easily searchable nationwide Lease-Option property listings to benefit buyers and sellers alike. We also provide expert Rent-To-Own Specialists to prepare you for whatever challenges you may encounter along the way.

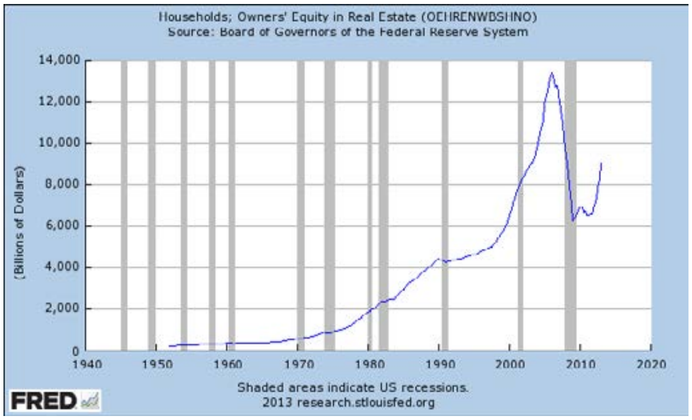
Why is Rent-to-Own Back in a Big Way?

When the housing bubble burst in 2008, the way consumers and creditors view mortgage markets changed. Six years later, many of the repercussions of this systemic shift can still be felt. In the United States, a surplus of vacant homes exist while many people are denied loans needed to purchase one. Many younger people, particularly those who graduated with debt at the height of the recession, had their ability to accrue substantial savings needed for down payments hobbled by the economic environment. As their financial picture comes together, many are starting families or considering investment properties. Recent RealtyTrac analysis shows that 96 percent of U.S. housing markets are still affordable for recent grads, even those who are also paying student loans. The crash of 2008 also created a toxic credit environment for people of all ages. FICO found that during 2008-2009, 50 million people say their FICO scores plunged more than 20 points, 21 million of these losing more than 50 points. This doesn't fully take into account borrowers who went into foreclosure when unable to secure refinancing, or those whose businesses and investments went belly up. Many of those individuals lost 100 points or more.

An influential paper on the U.S. Housing market issued by the Federal Reserve in early 2012 noted the impacts on growth resulting from "obstacles [limiting] access to mortgage credit even among creditworthy borrowers" contributing to difficulties in the housing market. Tightened loan regulations and protective measures from lenders have frustrated many potential homeowners with stable income but troubled credit, leading them to seek alternative routes for financing properties.

How Does Rent-to-Own Fit?

Rent-to-Own arrangements, in conjunction with responsible credit rehabilitative habits or programs, can put people into homes. By doing an end-around on initial credit barriers, RTO combats one of the lingering symptoms of the housing crisis (especially in suburban and exurban areas where young families and economic recovery are creating demand). A 2012 white paper from the Rosen Consulting Group notes Rent-to-Own "is a once-in-a-lifetime opportunity to enfranchise a large number of Americans who might not under ordinary circumstances be able to afford homeownership."



When scaled up on a macro level, Rent-to-Own also affords an opportunity to rebuild widespread lost equity and reverses the atrophy effect created by vacant properties in foreclosure-heavy neighborhoods (FRED). Central to our study is the idea that putting desiring consumers who are fiscally capable of homeownership into homes is more sensible than having them languish in overpriced rentals[1]. Rent-to-Own, in conjunction with competent financial management, gives these individuals the chance to build equity and lower vacancy rates--especially in hard hit areas. Rent-to-Own is growing in popularity internationally, as both state programs and private real estate developers are seeing the growing demand among the middle class. The opportunity for reputable investors and developers in the United States to convert foreclosures and rentals into affordable housing for qualified Buyers is there.

[1] Rental prices continue to rise in the aftermath of the Recession, while asking sales prices have largely stabilize statistically, as noted in this past year's census results (figures 2 & 3. Source: census.gov). And, with homeownership rates at approximately 5% below the 2005-2006 peak, there is ample opportunity for Rent-to-Own strategies to help change the face of American housing (RCG notes that each percentage point represents 750,000 households exiting the for-sale housing pool and entering the rental pool).

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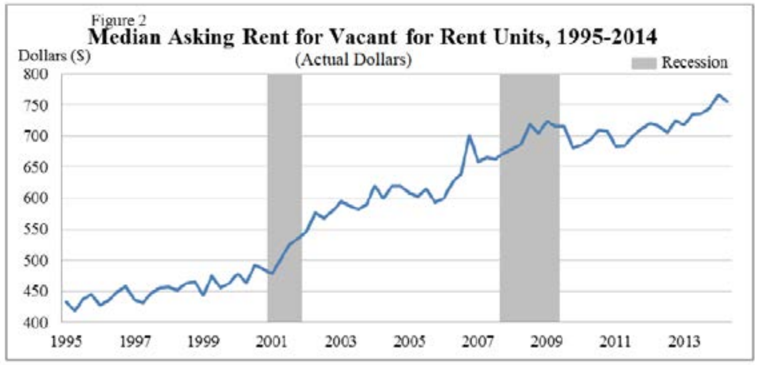
What is Rent-to-Own?

Rent-to-Own is not a new concept, nor is it a gimmick. According to RTOHQ.org, Rent-to-Own sprang up in the 1970s "in response to a growing consumer need for acquiring household products without incurring debt or jeopardizing the family's credit." Expanding from appliances and other household goods outward into other markets, the Rent-To-Own industry is now $8.5-billion strong and encompasses everything from furniture to musical instruments, electronics and more. Rent-to-Own property sales branched away from the retail market idea early, in part as a way for investors to help individuals sell homes to avoid foreclosure. Readily available loans through the 90's and especially in the 2000's made Renting-to-Own largely unnecessary. But now, after nearly twenty years of easy mortgage approvals, the lending climate cooled and Rent-to-Own real estate purchases are emerging in popularity again.

Rent-to-Own agreements are open source in nature. One of the benefits of RTO is the flexibility the agreement offers both Tenant-Buyer and Seller- a competently drafted contract can be tailored to suit the needs of all parties involved.

In the second quarter 2014, the median asking rent for vacant for rent units was $756.



In the second quarter 2014, the median asking sales price for vacant for sale units was $151,800.

How Does RTO Work?

Most Rent-to-Own agreements initiate the financing process by paying rent for a period of time at a slightly higher agreed-upon rate, before acquiring an outside loan at the end of the lease term. There is no one way of drafting an RTO agreement, but all good agreements involve a lease agreement and a contract of sale. The contract of sale fixes the terms and final sale price on the property. In most cases, a Rent-to-Own agreement proceeds as following:

• Tenant-Buyer contacts Seller and expresses interest in leasing the property with an option to purchase.

• Seller conducts a background check on the Tenant-Buyer (and vice versa).

• Tenant-Buyer and the Seller establish the terms of the Lease Purchase Agreement. The Agreement contains the following details: lease term, property price (usually fixed at the time of purchase, per the sale agreement), monthly payment and rent credit amount, and the option fee (serves as the deposit, but can be used as part of the down payment for the property at the end of the lease).

• Tenant-Buyer has the opportunity to move into the home immediately, paying rent to the owner for a period between 1 and 5 years depending on the terms.

• Seller undertakes major maintenance duties a landlord normally would for a rental, as is agreed upon in the lease agreement.

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• The Tenant-Buyer has the opportunity to make smaller improvements on the property, adding value and equity to the property while they occupy their future home.

• Each month, a rent credit included with the monthly rent payment that is saved in escrow.
IMPORTANT: During this period of time, the Tenant-Buyer must ensure that whatever obstacles have prevented them from securing a mortgage is eliminated.

• Upon completion of the lease term, the Tenant-Buyer has first right-of-refusal on the sale.

• In most cases, the Tenant-Buyer will have paid additional money with rent each month to accumulate a down payment, which can be used in the sale.

• If the Tenant-Buyer chooses to buy the property and secures mortgage financing, the sale is completed and the title is transferred.

• If the Tenant-Buyer chooses to walk, the Seller keeps the rent deposit and the Tenant-Buyer is released from responsibility for the sale.

Buyers Benefit From Rent-to-Own.

Rent-to-Own benefits aspiring homeowners with variety of circumstances preventing them from getting traditional financing. Buyers who gravitate towards RTO often have a history of credit problems, due to divorce, default, and other hardships. Other frequent Rent-to-Own Tenant-Buyers include younger families looking to purchase homes. There is a high potential for marketing to younger people living in competitive metropolitan rental markets, who often spend much of their income on housing (which makes accruing investment savings difficult). As they transition to single family homes, Rent-to-Own can offer them a chance to build a down payment on a home while paying the same or less than they were for apartments in the city. Many of these individuals in the pre-2008 loan climate would have gravitated to toxic variable rate sub-prime loans. For good reason, this exploitive loan has been phased out, and currently sub-prime loan giving is a small, tightly regulated market with high interest rates and substantial down payments. Rent-to-Own alternately offers some Tenant-Buyers a chance to make the strides necessary to secure a loan with better interest and terms.

Let's Overcome Stigma.

One of the most valuable components of Rent-to-Own real estate is also what makes it tricky and potentially dangerous. Because there is no regulated way to organize a lease agreement and sale, the open-source nature of Rent-to-Own makes it a potential target for scammers. While real estate fraud exists across all markets, unscrupulous Sellers have leeway to create complexity in the otherwise simple Rent-to-Own formula to take advantage of unprepared Tenant-Buyers. Google searches for "Rent-to-Own" turn up articles telling potential Buyers to beware--often using language like "scam" and "scheme" to describe the process. Perhaps because traditional real estate brokers and firms have largely avoided RTO, a certain anxiety exists amongst consumers and real estate journalists alike. Shedding light on good practices and popularizing the vehicle as an opportunity for reputable Buyers, Sellers, and speculators is the only way to break the stigma surrounding Rent-to-Own home sales. Rent-to-Own offers a unique opportunity to put capable homeowners into houses and generate revenue for Sellers and investors. It's a win-win.

Sellers and Investors Benefit from Rent-to-Own.

There is a strong potential for the judicious Seller or investor to have a very positive experience with Rent-to-Own. RTO agreements afford Sellers the opportunity to find Buyers in markets where many potential occupants have difficulty securing loans. For the duration of the lease, the Seller receives steady rent payments and can include a small profit in the agreement as part of the rent--in essence pocketing something like the interest that would otherwise be going to the bank. The rent credit paid separately into escrow is usually a non-refundable item. If the house is not purchased, the Tenant-Buyer forfeits the rent credit as part of leaving the agreement. Most of all, Rent-to-Own offers Sellers the opportunity to put Buyers into homes quickly and easily, helping cover mortgages with stable occupancy and rent checks.

In Closing.

Rent-to-Own, expanded on a broader scale, has the potential to augment the way we consider home-buying. Developing programs that support Rent-To-Own options in the private and/or public sector is a way to absorb vacancies and rehabilitate consumer credit before depositing them into the mortgage market. The ecosystem created by supporting systems that takes borrowers out of bad standing and places them in the market is positive and self sustaining--and can have powerful effects from top to bottom, on a large and small scale. Educating consumers and investors alike on the benefits Rent-to-Own offers is the first step in taking full advantage of this powerful tool and using it to its fullest capacity.

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