Creating Enormous Wealth thru...
Lease Options - Buyers

Introduction:

In the following **Special Report** you will discover many of the benefits and potential down falls of doing a Lease Option as it pertains to real estate. This **Special Report** is designed for the person or family who wants to own a home. We will discuss how you need to enter into an option agreement and how this process works in order to protect your interests.

There are some great benefits and strategies from doing a Lease Option. Any references to "you" means you as a Buyer or Buyer/Tenant.

Sit back, enjoy and ***let's get started*****....**

Definition - What is a Lease Option?

A Lease Option is a unique way that a family or person can start on the road to homeownership without all of the pesky messes of qualifying for a loan or in most cases without even having their credit being an issue.

You are entering an agreement with the Seller/Landlord whereby you have the right to buy a particular home within a specified time frame often at some type of agreed upon price. During this time frame the Owner can only sell the home to you. This is kept in place with a signed agreement between both parties. Always accompanying a Lease Option Agreement will be a Rental Agreement. Thus, to maintain the lease option agreement in good standing you must adhere to the rental agreement.

For the Seller/Landlord to enter into this type of agreement there will be a non-refundable option consideration required. This consideration is often applied toward your down payment when you finally buy.

Another way to look at this is that you are gaining control over a home without ever needing to actually own the home. In many ways this is better than the actual ownership. This matter will become clear by the time you have finished reading this report. When someone buys an option that person is actually buying the "right to purchase" at a designated price and by some pre-determined time in the future. The Seller is selling this "right to buy" for some previously agreed upon conditions. Thus, the Buyer gains control over the property without having to go through the effort of actually buying it. There is a lot of power in this position and you need to understand and hold that power with great respect.

The term Lease Option is also referenced by other names in real estate. Other terms or phraseology used synonymously are "*lease with the option to buy*", "*rent-to-own*", "*lease to buy*", and "*option to buy*". All of these have the same meaning.

Definition – What is the Lease Purchase?

There is another term you may hear when searching for these types of homes. It is the term **Lease Purchase**. This strategy is very similar to the Lease Option with the exception that the Buyer signs a purchase contract. Thus, the Buyer is obligated to purchase the property at a specific future time. This may work to your advantage or disadvantage.

Advantages is that you have a purchase contract in place and may have even opened escrow. The major disadvantage is that you are now committed to buy. If there is any change in the market (good or bad) you have no control. With an option there is still possible room for renegotiations.

A Lease Purchase goes beyond the scope of this **Special Report** and should be avoided by anyone without a thorough understanding the advantages and disadvantages.

Be careful in your nomenclature. Many people think the Lease Option and the Lease Purchase are the same thing. Just pay attention to the words "option" and "purchase" and this should steer you correctly.

What kinds of real estate can you buy with a Lease Option?

For you as a future homeowner the most common form is a single family home or residence. Now you could also use this to buy small investment properties like a duplex, triplex or quadroplex. Thus, you could move into one of the units and start receiving cashflow from the other units. This would be an ideal way to become an owner. These opportunities are very rare, though.

All kinds of real estate can be utilized with a Lease Option. Lease Options can also be used for commercial properties, vacant land, industrial properties, apartment complexes, etc. The only limit is the imagination of the Buyer and Seller. This is beyond the purpose of this report and you should probably purchase our other **Special Report** on **Lease Option for Investors** when you are ready.

Many homeowners across America have gained access to their first home with this creative technique.

Who can do a Lease Option?

Any adult over the age of 18 can do a Lease Option. This age requirement is set by most states as the minimum age for signing legal contracts without a parent or guardian. Notice that race, color, creed or anything else besides the minimum age matter.

How Does It Work?

A Lease Option is a fairly simple process, once you fully understand it. The process is very similar to a rental agreement with only a few additional items that must be addressed. These will become the terms of the purchase of the home and should always be in a separate agreement. **NEVER, NEVER, NEVER COMBINE A RENTAL AGREEMENT WITH A LEASE OPTION AGREEMENT AS ONE DOCUMENT!!!!** Always keep a separate rental agreement and lease option agreement.

The beginning process is exactly the same as a rental. The Landlord will require a Rental Application to be filled out. This is the same one you would fill out for a rental. The Seller/Landlord may do whatever verification that is needed.

Afterwards, the two parties gather to sign the other contracts. The two contracts needed will be a **Residential Rental Agreement** (sometimes called a Residential Lease Agreement) and a **Lease Option Agreement**. The rental agreement is filled out the exact same way as if you were only a tenant.

The amount on the rental agreement is the full monthly rents collected including any rental credit. Security Deposit will be whatever the Seller/Landlord requires. Often this is waived since you are putting down monies for the Option Fee. If a security deposit is required, this is not to be applied toward your down payment in the future.

The Lease Option Agreement will spell out the terms of the Lease Option side of the contract. This includes, as a minimum,:

1.) <u>Purchase price</u> (*can be differing amounts as discussed below*)

2.) <u>Lease Dates</u> of when you can exercise the option. This includes an early date and the latest date of when you can buy the home. An early date is used to protect the Seller if there may be a pre-payment penalty, seasoning issues for loans, or for some other reason that the property can't be sold until a certain date. If there is no restriction this date can be as early as the initial move-in date.

3.) <u>Rental credit</u>. This is the monthly credit that you will receive from each timely rental payment and this is applied toward the purchase of the home as part of your down payment. The full rental amount here must match the one on the rental agreement.

4.) <u>Required non-refundable option consideration</u>. This amount should be fully applied toward the purchase of the home, as described later. This is the money you have paid the Owner so that you have the option. Usually this money is non-refundable if you decide not to purchase. Thus, be sure that you are really wanting the home before entering into one of these agreements.

5.) <u>How funds are to be distributed</u>. This is what is to be done with the monies depending upon what happens if you do or do not exercise the option. Both parties must be aware of what happens in either scenario. Everyone must be made aware (and done in writing) that if you fail to exercise this option, your monies will be non-refundable. Also, if they do decide to buy how will your money be applied toward the home.

You and the Seller enter into a contract whereby you give the Seller some form of consideration (usually money) to hold as "option consideration". In almost all cases this consideration will be non-refundable. The reason this is non-refundable is because the Seller is limiting himself to the contract and cannot sell this property to any other party during this **Lease Period**. The consideration is usually fully applied toward your down payment of the property or can be applied toward your closing costs.

One of the other things agreed upon between you and the Seller is the "**rent credit**". Rents are usually set at the current market rental rate and then an additional amount is added as a rent credit. The rent credit may also be applied toward the purchase of the home, much like the down payment. Rent Credits will vary depending upon region. They may start at $100 and go as high as a few thousand.

The option consideration amount indicated above will vary from city to city. If money is being used as option consideration, then the amount can be as low as 1% to 10% (or even more) of the agreed upon purchase price.

What Kind of Buyer Participates in this Program?

The people who usually participate in a Lease Option are:

1.) People who have bad credit.

2.) People who have very little money to put down on a property. They can't afford the 10% to 20% down payment a normal loan requires.

3.) Most frequently is both above.

To explain the above reasons we need to go more into depth of the individual causes.

In our experience, the main reason we have seen as to why people have bad credit is because of:

1.) Bankruptcy
2.) Divorce
3.) Medical expenses got out of hand on a family member
4.) Loss of job by one or both wage earners at some time in the recent past
5.) Bad spending habits
6.) Laziness

It is surprising just how many good people out there that have bad credit. A funny movie depicting an example of some of the items above is the 2005 movie *Fun with Dick and Jane* starring Jim Carrey and Téa Leoni. It is more of an issue of a bad situation than bad people.

Addressing the second issue above concerning little to no money to put down, the mortgage industry has already begun to tighten it's constraints on lending. In 2007 the foreclosure rate across the U.S. is at an all time high. Due to so many mortgages going into default the banks are being forced to become stricter on their lending practices. In many cities, the 100% loan does not even exist any longer. Thus, the Buyer (especially if their credit is also challenged) has to come up with more money to put down on a home. This could be from 5% to 20%. In many areas of the country a 20% down payment could easily exceed an entire year's salary and eliminates many people from buying.

Advantages

The advantages that you may experience with doing a Lease Option is that you can get into a home without the use of credit or having to pay high interest rates or even putting too much money down. The down payment most Owner ask is lower than what a bank would require. And, the Owner is already aware you may have challenged credit, so it won't be an issue either.

Another potential huge advantage is that in areas like the western U.S. the monthly rental payments are often lower than what they would be by paying for a mortgage. Thus, you could be saving money on a monthly basis. Plus, you get a credit much better than what you would get by owning the home. Now, you may begin to see where "control" may be better than "owning".

Another major advantage to the Buyer is potential additional equity in the home from the time during the rental period.

It is highly recommended that you immediately begin credit repair as soon as possible.

How Your Credited Money is Used

The money that you give to the Owner in both the rental credit and the non-refundable option payment can be used in any combination of the following three methods:

1.) Reducing the purchase price to a lower amount.
2.) Toward your down payment.
3.) Toward your closing costs.

An example might be a good way to explain these scenarios. Please note, the purchase price, down payment and the rental credit are quoted on the Lease Option Agreement. In this example, we will assume that you and the Owner agreed to a purchase price of $200,000. The non-refundable down payment was 5% or $10,000. The monthly rents were $1,200 in which $200 was being applied toward the down payment.

After 2 years (24 months) you decide to Exercise the Option. At this point in time you have saved (via the Seller) a credit of $10,000 + 24*$200 = $14,800. Thereby you can:

1.) Purchase price of the property becomes $185,200 ($200,000 - $14,800 = $185,200). The Buyer would have to pay any down payments and closing costs out of pocket based on this purchase price.

2.) Buy the property at $200,000 but has $14,800 in down payment paid by the Seller. This equates to $14,800 / $200,000 = 6.7% down payment

3.) Buy the property at $200,000 but has $14,800 paid by the Seller to go toward closing costs (e.g, appraisals, loan origination fees, etc.). Normally closing costs are about 3% of purchase price and would thus more than cover the estimated $6,000 (.03 * $200,000) in closing costs.

OR

4.) Any combination of the above. The most common we have seen is the last two combined.

Exercising the Option

An advantage when you actually Exercises the Option is that there is no real need of a licensed realtor. This actually becomes a **FSBO** (For Sale By Owner) transaction. All of the paperwork was already put into place with the option contract.

Please, realize that the purchase price has already been agreed upon and most all terms have already been agreed upon in the Lease Option Contract. Thus, all that is needed is to open up escrow with a local title company. This title company can be one of two different types. Depending upon the state you will use either an Escrow Company or a Real Estate Lawyer. They may even be able to provide a Purchase Contract so that everything already agreed upon is now on a finalized document or the Lease Option contract could be used.

In either case, the money credited by the Seller to you is used to your best advantage.

Failing to Exercise the Option

In the past, there are cases in which the Buyer decided not to buy a home. There are many of reasons that this occurs. Don’t let these happen to you.

If you need more time at the end of your Lease Date consider talking with the Seller about some of these below options.

1.) Extend the lease agreement for an additional year. A new purchase price and rental rates may need to be established. Sometimes a second option payment may be needed.

2.) Ask for Seller Financing. This is now a great way to gain ownership without still needing to qualify for a loan. In this scenario you may obtain an interest rate which is lower than what a bank could offer. Only do this if the Seller will not lose money on a monthly basis. The reason for this is that you don't want the Seller to go into foreclosure because he can't make up the difference.

3.) Ask for partial Seller Financing of 20% or less. This is useful if you can qualify for a normal loan at only 80% or less. The Seller could carry the rest. The operative word is "could" because the Seller will have to pay off his original loan completely with your 80% financing. If this does not cover his full loan then he may have to come up with thousands of dollars in order to do this which he may not have.

Closing Remarks

As you can see the benefits of doing a Lease Option can be very beneficial to both you and the Owner. The Owner is getting the price he wants, you are getting great terms to control a home while attempting to get your own financing. Thereby creating a Win/Win for all parties involved.

Welcome to the world of Homeownership!!!

Give us a call when you are ready to take the next step.

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