

Lease Options - Q & A

Q: What is a lease option?

A: When a renter signs a lease with an option to purchase the property for a specific price within a certain time frame, that is called a lease option. In most lease-option situations, a portion of the rent is applied to a future down payment.

Lease options are most popular among buyers who don't have enough funds for a down payment and closing costs.

Q: How do lease options work and what are the benefits?

A: Most lease-option agreements specify that a portion of the rent on the property in question is applied toward the purchase if the option is exercised. This is referred to as rent credit. Institutional lenders accept rent credits as part of the down payment if rental payments exceed the market rent and if a valid lease-purchase agreement is in effect, a copy of which must be attached to the loan application.

For sellers, lease options give them several advantages, especially in a slow market. These include a monthly rent higher than market rent and top-market value for the property. Also, the renter is more likely to treat the property like an owner.
