# Rent-to-Own Homes

What You Need to Know Before You Sign a Contract

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Prepared as a Consumer Guide

# Rent-to-Own Homes: What You Need to Know

If you're a renter hoping to buy a home, you may have come across the term **"rent-to-own"** (or "rent-to-buy"). At its core, it's a legal agreement that lets you rent a home now with the possibility — or obligation — of buying it later.

On the surface, the idea seems simple: part of your monthly rent is credited toward a down payment. But the reality is more complicated and can involve risks.

The **Federal Trade Commission (FTC)** warns that renters can lose money in these agreements, recommending instead that buyers wait until they have improved credit and saved for a down payment.

## What Does Rent-to-Own Mean?

A rent-to-own agreement is a lease that includes the option (or requirement) to purchase the home later, usually within two to three years.

**Monthly Rent:** A portion goes toward a down payment. **Accrued Credit:** Contract specifies how much is credited.
**Purchase Price:** The price is usually fixed in advance.
**Example:**
Rent: $1,450/month
$250 credited toward down payment
Over 3 years: $9,000 saved
On a $250,000 home, this equals 3.6% of the purchase price — enough for an FHA loan.

## Who Offers Rent-to-Own?

**Individual Homeowners** – Often 3-year contracts. **Institutional Companies** – Shorter terms (2 years), sometimes extendable. May provide clearer contracts, consumer protections, and credit counseling. Regardless of the source, it's essential to understand the terms fully before signing.

## Types of Rent-to-Own Contracts

**1. Lease-Option**
Gives you the right, but not obligation, to buy. Risk: lose the option if late on payments or deadlines.

**2. Lease-Purchase**
Requires you to buy at the end of the lease. Risk: legal liability and loss of credited money if you don't follow through.

**Tip:** Always have a real estate agent or attorney review the contract.

## Is Rent-to-Own Right for You?

Rent-to-own may be appealing if you:
Want to live in the same area long-term. Need time to save for a down payment. Must repair or build your credit history.
However, contracts can be costly and risky. Saving directly for a down payment may be safer in many cases.

## Bottom Line

Rent-to-own can bridge the gap between renting and owning — but only if you fully understand the terms and risks.
Always protect your finances and seek professional advice before committing.