

# Renting to own

If done properly, these programs can help people with damaged credit get their foot in the door.

By Tom LaRocque Special to The Denver Post

Traumatic as it may be, foreclosure "doesn't have to be the end of the world," according to Terry Greene, who helps clients clean up damaged credit in his Northglenn office.

"It can ding you 75 or 100 points," he said, referring to the expected drop in a foreclosed borrower's credit score, which, in many cases, has already been damaged by late payments and other related financial trouble.

An average American's score at present is around 580, Greene estimated.

One route to redemption advocated often by Greene is to lease a home with an option to buy it. Also known as "rent to own," the lease option is a time-tested concept in real estate that can benefit both property owners and renters.

For renters, it provides a housing option that includes both time and incentive to improve their credit score. For landlords, it brings in people motivated to pay more per month and take better care of the property.

In a typical lease-option contract, the landlord sets aside 20 percent or 30 percent of each month's rent in escrow, earmarked to help the homeowner eventually purchase the property. The extra cash may be applied as a down payment, which may be eyed more favorably by the lender, or as a price reduction.

If the tenant doesn't buy, however, the extra funds are forfeited.

Lori Jake manages 80 residential properties for Swiftcurrent Investment Group in Colorado Springs. Her company, like many lease-option landlords, also stipulates an upfront, nonrefundable "option fee."

Rent-to-own tenants can elect to pay 3 percent of the home's specified purchase price and then pay monthly rents \$50 to \$100 higher than normal rentals. Or they can skip the fee and live with payments \$150 to \$200 higher than standard rents, she said. In either case, the rent "premiums" go toward eventual purchase of the home.

Are the added costs of a purchase option worth it?

"I'm not able to say," said Michelle Mitchell, president of the Colorado Housing Assistance Corp. The Denver-based nonprofit counsels low-income buyers in matters of homeownership and budgeting. "As a purely financial matter, my question is, why would anyone pay much to lock in a purchase price two years down the road? It may be beneficial if home

prices rise, but certainly not if they drop," Mitchell said, adding that life changes also can determine whether a home is still appropriate a few years down the line.

"Babies come along and so on. You may want to buy a certain home today but not two years from now," she warned.

More than in a conventional lease, Greene said, a lease-option landlord has a strong incentive to help tenants improve their credit scores. Ultimately, the goal is to see them qualify for home loans and become owners of the properties they rent. A landlord can help with a letter of recommendation to lenders and credit-reporting agencies.

But beyond that, he admits, most rental landlords cannot directly affect a credit score.

Unless they are registered as creditors with the big three reporting agencies — Experian, Equifax and TransUnion — they can't communicate directly with those agencies.

Damaging information such as missed rental payments does not go onto a credit report.

It does often go onto a rental history maintained by the landlord or apartment complex. When a bad renter tries to buy a home or rent again, the history is likely to be an obstacle.

"I've seen good lease-option arrangements, and I've seen terrible ones," said Greene. In the worst cases, landlords push vulnerable people to rent rundown properties at exorbitant rates. "They say, 'Look what you've done to your credit. What other options do you have?'"

The best rent-to-own programs offer renovated homes at fair prices. They put promises in writing, including, importantly, the percentage of each month's rent to be credited to the eventual purchase as well as the specific purchase price. Some guarantee repairs, at least for 30 days. Some offer free enrollment in credit-repair programs.

A former compliance officer with TransUnion, Greene counsels clients individually in credit repair. The strategies are multi-pronged, involving credit-card payments and household budget planning. Using those tools, he said, a young couple he counseled raised their FICO score from 523 to 618. Three years after foreclosure of their home in Aurora, they are about to buy another home.

There's one more benefit of a rent-to-own arrangement, noted Greene. "If you buy the home you're in, you don't have to move again."

