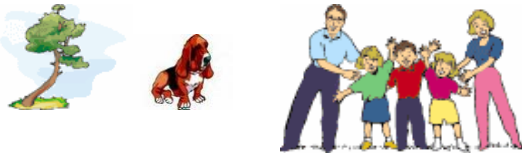


DO NOT LET YOUR DESIRE FOR THIS



HAVE THIS END RESULT



THE RISKS OF LEASING A HOME WITH AN OPTION TO PURCHASE

Information you need to know to protect yourself when you buy a home by a lease-purchase agreement.

Q: What is a lease-purchase agreement?

A: It is an alternative to purchasing home where the home is leased to a household that may not be able to qualify for a mortgage. A right to purchase the home may be exercised after a certain amount time. The lease-purchase may lock in a sales price and preserve the property until you obtain a mortgage. The Buyer can receive credit towards the purchase price for the rentals you pay to the Seller. If the Buyer decides not to purchase the property, he/she can walk away without exercising the option to purchase.

DISADVANTAGES

The disadvantages of a lease-purchase are the ways in which it is different from a typical purchase.

1. FORFEITURE OF PAYMENTS

The Buyer forfeits everything paid to the Seller if the Seller cancels the lease due to things such as late payments and canceled insurance. The Buyer will also forfeit all payments that have been made if he/she does not complete the purchase.

2. CURRENT MORTGAGE MAY PROHIBIT SUCH A TRANSACTION

If there is an existing mortgage on the property, the current mortgage may prohibit

the owner from entering into a lease-purchase agreement. The lender may have the right to demand the entire amount of the loan if the owner sells or enters into a long-term lease. Your rights may be cut off by the lender unless you or the seller has the ability to immediately pay off the underlying loan

3. THE UNIFORM LANDLORD TENANT ACT DOES NOT APPLY

Even though the first part of a lease-purchase is a lease, these agreements are not covered by the protections of the Uniform Residential Landlord Tenant Act.

4. NO PROTECTION FROM ACTS OF SELLER

a. Judgments Against Seller

The seller may not be able to deliver a clear title when the right to purchase is exercised. Judgments obtained against the seller may attach to the property if a notice of option right is not recorded. If an option is recorded, however, the lender may elect to enforce the due on sale clause and demand immediate payment of the note. Unless the buyer or the seller can pay off the underlying mortgage loan balance, all rights may be cut off by the lender.

b. Bankruptcy of the Seller

If the seller files bankruptcy, your rights may end. Even if you have paid on the lease-purchase for several years, you may find yourself with no rights and no legal recourse against the seller.

c. Death of Seller

If the Seller dies before Buyer obtains legal title, the Buyer may not be able to get clear title unless the Seller's estate is probated. If estate has little or no money there may little incentive to probate the estate.

d. Unscrupulous Seller

An unscrupulous Seller may transfer title to another Buyer or borrow money against the house creating an additional mortgage. Since a lease-purchase is typically not recorded, another buyer would have no notice of your property interest. The new buyer may take title to the property free and clear, cutting off the original Buyer's rights. The only way for Buyers to protect themselves against claims against their title is to record the lease purchase agreement at the courthouse.

Sellers usually do not want Buyers to record lease-purchase agreements, because recording may trigger a due-on-sale clause. Recording a lease-purchase agreement may also put a cloud on the title of the Seller, limiting what they can do with the property

5. HOMEOWNERS INSURANCE POLICY

The Seller usually requires the Buyer to pay for insurance and taxes on the property. If the Seller carries a standard homeowner's insurance policy, the lease-purchase agreement may terminate the coverage of the policy.

If the policy is changed to permit a lease, the insurance company will send a new copy of the insurance policy to the lender, potentially violating the due-on-sale clause. If the policy

is not changed, the Buyer and Seller run the risks that there is not a valid insurance policy covering the property and that the mortgage will be violated since there is not a valid insurance policy on the property.

If something were to happen to the property, and the property is insured properly, the Seller will collect the insurance proceeds. The amount the Buyer pays the Seller for the house will not be reduced.

6. IMPROVEMENTS MADE BECOME THE PROPERTY OF THE SELLER

Until the Buyer pays for the property in full, any improvements to the property (e.g. new kitchen cabinets) by the Buyer will be the Seller's property. The Seller does not have to reimburse the Buyer for costs associated with improvements even if the Seller evicts the Buyer.

7. BUYER CAN NOT GET AN EQUITY LOAN UNTIL THE OPTION TO PURCHASE IS EXERCISED

WAYS TO PROTECT YOURSELF

1. Examine the options available to you before you decide to enter into any type of agreement.
2. Have an attorney review your agreement.

3. Buyers should have a professional home inspector inspect the property if the agreement states that the property is in "As Is" condition

4. Obtain title insurance. The title company can insure that there are no existing judgments or liens against the property when the lease-purchase is entered into. It will not protect the Buyer against any judgments filed against the Seller after the date the lease-purchase is entered into.

5. Record a Memorandum of Option. This gives notice that an option to purchase the property exists and may protect the buyer against judgments filed against the Seller after the date the lease-purchase is entered into. *Warning: the recording of a Memorandum of Option may trigger a due on sale clause.*

TERMINOLOGY
