Rent-to-Own Homes Fact Sheet

Introduction

It is strongly advised that you should not rent-to-own a home. However, if you decide to sign off on one of these rent-to-own contracts, be aware of the following:

The contract should state what it is that you are actually purchasing. (Are you buying the home? Are you buying the land and the home? Are you buying the home and renting the land? Are you buying the land and renting the home? What portion of the land are you buying?) Make sure that what you want to buy is in writing.

Check the court records to see if the seller actually owns the property. The best way to check the land is to have a title company run a search. You do have the option of checking the records with your local circuit clerk, too. If a mobile home is involved, ask to see the seller's title to the property.

Remember that you can get out of the contract. If the seller can get out of the contract before all payments are made, you should be able to get out of the contract, too. Make sure that if you want to leave the home, you are not required to pay the rest of the payments.

There is a requirement that the seller transfers the title to all property listed in the contract after you have made all of your payments. Remember that a title to a mobile home cannot be passed on with a deed.

Record the contract with the circuit clerk. File a copy of the contract with your local circuit clerk. Make sure that the first page of the contract states who prepared the contract and the address of the person who prepared it.

Get all the terms of the contract in writing. Do not trust statements from the seller. Verbal agreements are not usually enforceable.

Keep copies of the contract and keep copies of every single document that you sign. If you do not have anything in writing, you do not have the proof that you need if anything goes wrong.

As always, before you sign a contract, call an attorney. An attorney can review the contract and make you aware of anything that should be included or anything that is missing.

Scams

Do not get scammed by a rent-to-own home deal.

A rent-to-own home contract may seem like a good idea, but homebuyers often lose thousands of dollars in these deals and wind up without the home. There are many dangers in entering this kind of a contract. Know the risks before you sign anything.

Things to Know

Some sellers have no intention of letting you own the home. In many rent-to-own scams, the sellers charge a large down payment (often thousands of dollars) and try to evict you shortly after you move in. If that happens, you may pay thousands of dollars for a home that you have only lived in for a month.

The contract may not give you ownership of the home after you make all of your payments. Some contracts say "Rent-To-Own" at the top of the contract but do not have a clause in the contract that gives you ownership rights. This issue can be resolved through a lawsuit, but it is best not to take your chances by signing a rent-to-own contract that does not clearly state that you will own the property after you make all of your payments.

Some sellers may not sign over title, even if the contract says you can get the title and even if you make all of your payments. This is an issue that can be resolved through a lawsuit, but lawsuits can be lengthy and time consuming.

You may lose the money that you put into repairing the property. If you have put time and money into repairing the home, you may or may not be entitled to get that money back if you do not end up buying the home.

The contract often gives you less rights than a traditional home purchase. You have to look at the terms of the contract to know what your specific rights are. Generally, you only have the rights of a renter until all payments are made and all requirements of the contract are met.

The seller may not have title to the property. Traditional home purchases include a title search on the property. If you enter into a rent-to-own contract and do not check to see if the owner actually owns the land, you may not actually be able to get good title to the land.
You may lose money with a large down payment. If you break a term of the contract, you may be evicted and lose your down payment.

You may be required to make a balloon payment. This means that a rent-to-own contract might require a large lump sum of money as a final payment. If you are not able to make that large final payment, then the seller may try to evict you and get you to forfeit every payment you have made.

If the seller loses the home, you may lose the home. If the seller loses the home through a sale, transfer, or a foreclosure, then you will likely not be able to get title.

This fact sheet is a collaboration of the Center for Arkansas Legal Services and Legal Aid of Arkansas, Inc. These nonprofit organizations provide free legal assistance to eligible Arkansans who meet income, asset, and other guidelines. Legal assistance may also include advice and counsel, brief services, or full representation depending on the situation. For more information about civil legal aid in Arkansas, please visit arlegalservices.org. For information specific to Legal Aid of Arkansas, Inc., visit arlegalaid.org. Apply for services online or by calling 1-800-9-LAW-AID (1-800-952-9243).

The information and statements of law in this fact sheet should not be considered legal advice. This fact sheet is provided as a broad guide to help you understand how certain legal matters are handled in general. Courts may interpret the law differently. Before you take action, talk to an attorney and follow his or her advice. Always do what the court tells you to do.

Content provided by:
Legal Aid of Arkansas, Inc.

Updated January 2017