

TALES FROM THE TRENCHES™

BY BARRY C. MCGUIRE

July, 2015

LEASE-OPTIONS AKA RENT-TO-OWN: JUST A TASTE

Rent-to-Own (abbreviated as RTO and often interchangeably called a Lease-Option) is a two-part strategy. You start with a lease (the ‘Rent’ part) and add an option to purchase (the ‘Own’ part). In a Rent-to-Own scenario, the renter is, for some reason, unable to finance at the moment. Examples of financing problems are: bad credit, not enough down payment, self-employed, new job, or new immigrant. Yet, all these tenants want to make the transition toward homeownership immediately, usually for personal or emotional reasons.

Typically, the tenants are looking to stop renting and finally move into a place they can call their own. They don't want to continue bouncing from rental to rental, and are looking to settle down once and for all.

Rent-to-Own is a great Win-Win strategy; you're helping renters become homeowners. These deals can be extremely profitable, while helping everyone involved in a truly powerful way. No matter the year or economic situation, it's a great time to get started in Rent-to-Own.

WHY CHOOSE A RENT-TO-OWN STRATEGY?

Whenever the real estate market takes off, stores are flooded with books, CDs, and courses promising to make you rich. During times of economic crisis, investors are shown ways to become rich from investing in foreclosed property. Very few find great financial success using any of these concepts.

The difference between these "bandwagon" strategies and Rent-to-Own is that Lease Options will work in any market.

No matter the year or economic situation as you read this, it's a great time to get started in Rent-to-Own. This strategy will ensure that—regardless of what happens with the economy in the future—you will thrive.

We will show you how Rent-To-Own is a proven real estate investment strategy that will allow you to gain positive monthly cash flow in any market. You will enjoy an appreciation gain at the end of the investment, while having a clearly mapped exit strategy right from the start. These three aspects alone (positive monthly cash flow, appreciation, and an exit strategy) will ensure success when using the Rent-to-Own strategy.

Let face it, Rent-To-Own had, and maybe in some circles still has, the reputation of being a ‘scam’ used by nasty landlords to take advantage of poor unsuspecting tenants. Why?

Well, because there were a number of unscrupulous investors who took advantage of tenants. They set the deals up so that it was inevitable the tenant would default and lose their option money, often in the tens of thousands of dollars.

That's not what we do! Remember, it's win-win! No taking advantage. If a tenant buyer just doesn't have a chance, tell them and don't take their money. If your analysis tells you that the tenant buyer could actually qualify with a mainstream lender, point them in that direction.

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Don't put them into a Rent-to-Own if they can get their own mortgage and buy on their own. If your deal is going bad, you can be firm but try to make things work, small defaults are not the same as big defaults. You get the idea, be a decent human being and don't take advantage; always make it a win-win!

RENT-TO-OWN, WHO WOULD DO THAT?

You know, that's a perennial question. As soon as we start talking about Rent-to-Own, the naysayers are in full chorus: "Rent-to-Own, who would do that? If they can't get their own mortgage, why would we want to get involved? And, don't these people all have shredded credit? Why get involved with someone who can't make their payments?"

Actually, I kind of like to hear the great unwashed making these sorts of comments. To me that means they won't put in any effort learning about and understanding RTO, which is really a fantastic Creative Real Estate Strategy. The more people who think like that, the easier it is for people who will put in the time and effort to learn about it. FYI, I cover this strategy in some of my Focus Workshops, coach it through my Rapid Cash Program (RCP), and have also prepared a home study kit called [Rent-to-Own Success in Canada](#).

Those who don't know (the critics) think that only the credit challenged would be interested in RTO. The truth is that RTO is interesting to a wide range of would-be homeowners. Rather than the credit challenged, we focus on other groups.

Think about someone just starting a new job. Often lenders want substantial history at the new job and proof of ongoing monthly income before they will approve a new mortgage. What about if you have just started a new company? Some lenders want two years of financial statements prepared by an accountant to show appropriate income before they'll even look at a mortgage application. 50% of Canadian marriages fail. In many cases, income falls by 50% and these now single people can kiss goodbye their chances of getting a mortgage. New Canadians, forget about it. Hoops must be jumped through to prove net worth and show our cautious Canadian lenders that fantastic credit in your homeland means anything here in Canada.

**Many individuals and families in these large, non-qualifying groups of people don't want to rent!
They want their own home and they want it now!!!**

Our students' experience is that there are many interested RTO clients in the aforementioned categories, enough to fuel any new RTO business. You simply are not going to run out of possibilities. How do I know that? Just recently, two of our RCP Focus Workshop graduates have come up with two new categories of possibility for implementing your RTO program.

NEW CATEGORY #1: Bridge Financing

A very nice couple replied to our member's RTO website. On further investigation, the story was that they had found their dream home up in Edmonton and quickly signed an unconditional offer to purchase. Now, they already owned a home, and to purchase their new home in Edmonton, they had to sell their existing home. No trouble, right? Their existing home is beautiful and there had certainly been lots of demand in the

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last year or two. However, with a slowing economy offers were hard to come by and the closing date for the new purchase was looming without a sale of the existing old in sight. What to do?

Yes, you've got it! They were very happy to take advantage of a one-year RTO with a substantial, five-figure upfront option payment. Both husband and wife have good jobs and money in the bank. However, no bank would give them a new mortgage. Banking rules are that if you want to rely on your equity in your old home, you need an unconditional sale before the bank will give you what they call bridge or interim financing. So, our RCP grad is happy to set up the short-term RTO customized for the situation that will produce an amazing Return on Investment (ROI).

NEW CATEGORY #2: Credit Stupid!

I don't know any other way to say it. There are lots of people who have great jobs, earn a ton of money, but are babes in the woods when it comes to credit. Firstly, they don't even know that anyone is keeping track of them and their credit. They don't know what credit means unless it appears in the sentence, "I've maxed out my credit card." And, they have absolutely no idea that buying a house means this mysterious thing called their "credit" has to be pristine, especially in these tougher economic times.

Let me give an example of what one of our RCP grads has discovered.

Once a potential RTO candidate shows up, one of the diligence steps is to have the RTO candidate get a copy of their credit report and give it to you. You want to review that credit report to see what various credit reporting entities are saying.

What our RCP grad discovered is that there are numerous RTO applicants who do things like never paying their cell phone bill on time. They always pay, but they are always late. Every late payment is a credit black mark. Every late payment lessens their ability to qualify for a mortgage.

The next thing our RCP grad discovered is that credit stupid folks make multiple applications for credit.

Here's an example. The credit stupid RTO applicant wants to buy a car on credit. He goes around to 15 car lots and each one of them does a credit check with one of the two big credit-reporting agencies, Equifax or Trans Union. Did you know that every time a credit inquiry is made (except when you pull your own credit report) it lowers that person's credit rating? Credit stupid applicants absolutely do not know this. Their credit rating plunges every time they walk on a car lot.

LESSONS LEARNED:

1. There are many groups of anxious, potential homebuyers and we are finding more every day. N.B., many of these RTO candidates have jobs and money but don't fit within conventional lenders sandbox rules.
2. Credit Stupid: There are lots of people who fit in this category. What's the cure for stupid? Education. Over time, you can teach people to quit being Credit Stupid and help them qualify for a new mortgage that will allow them to close out your RTO investment.

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