

Bayberry Development Group LLC

Buying a home with “seller financing” or with “lease/purchase” What are the differences?



Through our *FinanceForHouses* program, we focus most of our activity on the seller financing approach to home ownership. In other words, we sell a house to a buyer and also provide the financing that allows that buyer to own the house. The buyer owns the house and begins enjoying the tax and financial benefits of home ownership as soon as they occupy the house.

They will provide a down payment and then begin making payments to us, just like they would with a standard bank mortgage. It's a great way to buy a house if you have good income, but a poor credit history.

For a more complete picture of how this seller financing program works, visit our website: www.financeforhouses.com and go to the *How It Works* page. Also feel free to download our set of Frequently Asked Questions (FAQs): www.financeforhouses.com/faq.pdf

Buying a home using a “lease with purchase option” (or simply “lease/purchase”) program is a different alternative. In this case the buyer is referred to as a “tenant buyer” during the lease period. Although as a tenant buyer, you do not get to enjoy the financial and tax benefits of ownership until you actually exercise the purchase option, there are other important benefits that should interest you.

In a nutshell, what happens with a lease/purchase program is that the tenant buyer (you) will provide a down payment (known as an “option fee”) and a security deposit (equal to one month's lease payment), and then you would move into the house and begin making monthly lease payments. At the same time, you would sign a purchase option contract that gives you the right to purchase the house at a given price at any time during the lease period.

You are NOT obligated to buy the house; you simply have the option to buy it at that price if you choose. Meanwhile, a portion of your monthly lease payment will be accumulated each month and will be returned to you when you exercise the purchase option and actually buy the house. In addition, your option fee and security deposit will be returned to you when you exercise the purchase option and buy the house.

The unique thing about our particular lease/purchase program is that we will agree on the purchase price of the house at the beginning of the lease period. That price, the fair market value at the beginning, will remain fixed for up to **three years**, allowing you that much time to exercise the option. Most other lease/option programs contain only a one year purchase option. The option may be extended or renewed, but the purchase price will very likely be higher, reflecting the increase in market value for the house.

Our program gives you up to three years to buy at the initially agreed price! This kind of price protection is very rare in most real estate markets. In exchange for such unusually beneficial terms, it is our expectation that the tenant buyer will assume the responsibility for maintenance of the house. After all, this house will become yours, once you exercise the option, so you will feel good about taking good care of it during the lease period.

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Let's look at a concrete example of buying the same house using either of these methods of ownership. Here is a wonderful 4 bedroom house in a quiet neighborhood in a good school system. A perfect first home for a young growing family. This house sells for \$182,000. The side-by-side comparison of these two approaches looks like the following:

	Buy with Seller Financing	Buy with Lease/Purchase
Purchase price	\$182,000	\$182,000
Down payment	\$10,000 (5.5% down payment)	\$4,500 (2.5% option fee)
Monthly payment	\$1,250 (principal and interest) \$ 160 (property tax and insurance)	\$1,500
Security deposit	Not applicable	\$1,500
"Closing" documents	<ul style="list-style-type: none"> • Settlement statement • Promissory note • Contract for Deed 	<ul style="list-style-type: none"> • 1 year lease (renewable) • 3 year purchase option
Applied to purchase price	Not applicable	\$200 per month \$4,500 (option fee) \$1,500 (security deposit)
Reserve for value upgrades; funded by owner (us)	Not applicable	\$2,000 (only used for upgrades that are mutually agreed by tenant buyer and owner)
Annual interest payment tax write-off	\$13,535	Not applicable (until purchase option is exercised)

So, as you can see, there is no easy answer to the question of which approach is better. The choice depends entirely on your own personal circumstances. For young, first-time homeowners, the lease/purchase option may be best, particularly if you have limited funds for a down payment.

For others, it may even be appropriate to execute both strategies, starting with a lease/purchase program for a year or two, and then using seller financing once you decide to exercise the purchase option and buy the house.

Still others want to get the significant tax and other financial benefits right away. So a straight seller-financed purchase is best for you.

Whichever you decide, we can help to make it a reality for you. Contact us at any time.

Let's get you into your new home!