Think You Can't Buy a House? Try the One You Rent

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If you have never owned a home before, or owned a home in the past, or previous circumstances require you to rent a home now, and you're hoping to buy a house again, there's one possibility you might not have considered: purchasing the home you're currently renting. That's right — make a purchase offer to your landlord to buy the home you presently live in. The blanket belief your landlord doesn't want to sell simply may not be true. By communicating your intention to purchase the house directly from your landlord, the transaction becomes easier for both parties.

Advantages to Buying a House You're Already Renting

- No competition, just you and the seller.
- Both parties benefit because the seller enjoys reduced selling costs without using a listing broker.
- Can be completed with or without a real estate agent.
- More time to perform on sales contract.
- No need to search for more homes as you may have already customized the home to your liking.

Here are three vital steps if you're thinking about buying your home from the landlord.

1. Get Pre-approved.

If you're serious about buying a home, especially in today's credit market, emphasis is placed on your ability to perform on a real estate sales contract. Unless you have your purchase offer in cold hard cash in the bank, you'll need mortgage financing. Find a mortgage lender that has experience and the ability to close a loan transaction from buyer and seller — both with and without real estate agent representation. This way, down the road if you or the seller decide to bring a real estate professional in on the transaction, you can still secure financing. To attain a proper loan pre-approval, you'll need to provide supporting financial documentation to a mortgage lender, as well as give them a loan application and permission to obtain a copy of your most recent credit report.

2. Make an Offer.

Bring an offer in writing to your landlord and present to them a fair market price for what you think the home is worth. There are two ways to accomplish this. You can bring a real estate agent into the transaction so they can make the offer on your behalf. Or, depending on the nature of your relationship with your landlord, a one-page document — stating the sales price, terms of the transaction between you and the seller, signed and dated by both parties — is sufficient for mortgage loan financing.

an informed buyer you'll want to obtain a pest inspection, and a home inspection — if you feel it is necessary — is typically recommended. The only required fee is an appraisal, costing around $400-$500. An appraisal is needed to determine whether the sales price meets the actual valuation of the home. Your mortgage lender will lend on the appraised value or the sales contract, whichever is lower.

Considerations for this:

- If the appraised value is equal to the purchase price, then you meet the lending guideline.
- If the appraised value is above the purchase price, the lender will make the loan on the sales contract and you purchase home equity moving forward.
- If the appraised value is lower than the purchase price, you can choose to pay the difference or the purchase price can be reduced to match appraised value.

Essential Home Loan Characteristics

Getting a mortgage does require providing thorough supporting financial documentation, as well as acceptable debt ratios, credit score and liabilities. Successfully closing the escrow loan is simply a function of having enough income coming in every month to offset your monthly liabilities. Liabilities lenders look for are things such as child support, alimony and typical liabilities that show up on a consumer credit report such as credit card debt, car loans and student loans.

Lending Tips:

- You'll need a credit score of at least 620 or above.
- Your income will need to be approximately 55% higher then all your liability payments and total new housing payment. Put another way, take a house payment you can afford, add your present minimum payment obligations, then divide this figure by 0.45%. This will provide the minimum income you'll need to be generating every month to take on that payment as a function of your current obligations. If you have no liabilities, take your monthly income, multiply it by 0.45% and that's the total house payment you qualify for — including principal and interest, monthly property taxes, monthly fire insurance and potentially monthly mortgage insurance (incumbent upon your down payment amount and the loan program you're using).
- The down payment amount varies, unless you're buying a home in a rural area that allows for no minimum down payment, you'll most likely be looking at a down payment of approximately 3.5%.
- Be prepared to show all supporting financial documentation, including all pages of personal income tax returns and any applicable filed income tax extensions.

If you are presently renting a home, and can afford a house, ask your lender to run a cost-benefit analysis for you to determine the most appropriate loan package for your situation.

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