

Rent-to-own contracts

Author

Northwest Justice Project

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If you're thinking about **buying a home with a rent-to-own (RTO) contract**, you should know the risks and how you can protect yourself. **If you're already living in an RTO home**, learn about problems you might face and when to try to get legal help.

What is a rent-to-own agreement?

If you're a tenant, your rent might be expensive, and you might wish you could instead put that money into buying your own home. But your credit score might not qualify you for a bank loan. Your landlord may offer to let you buy your rental. You may wonder if this is a good deal.

An RTO agreement (also called a lease option) is an agreement between you and your landlord giving you a chance to buy the home later (an option to purchase) if you complete all conditions in the agreement. But **few of these deals are ever completed**. You can end up losing the home and all the money you've invested. Know the risks before signing anything.

What are the downsides of a Rent-to-own agreement?

There are many. It can take years to complete a rent-to-own agreement. Many things can go wrong and cause you to lose the home and your money. The landlord may have no intention of ever letting you own the home.

- Until you get to the completion of the agreement, **you're not a homeowner. You're a renter and you can be evicted the same way as any tenant.** The landlord/seller may be planning to evict you before you can buy the home.
- **There are no second chances in an RTO relationship.** You have no right to catch up on any missed payments. The seller/landlord can evict you on 14 days' notice if you're late once with rent

- **You could spend and lose a lot of money.** The seller/landlord may want a large down payment, higher rent, and for you to pay property taxes and insurance. You may lose all this investment along with the right to buy the home if you commit even a small violation, like breaking a lease rule.

Even if you make it to the end of the agreement, the RTO agreement might require you to make a large, final payment or “balloon” payment to be able to finally buy the home. If you can’t do this, the seller/landlord may evict you and keep every other payment you’ve made.

- If the seller/landlord loses the home in foreclosure because they didn’t pay taxes or the mortgage, the bank will evict you. You’ll lose all your payments.
- **Getting repairs made can be a struggle.** The RTO agreement may say you must make all repairs. But state law makes your landlord responsible to keep the property fit for living, be up to all codes, and do other maintenance. If your landlord puts in the RTO agreement that you’re responsible for repairs, this is likely illegal.

What else should I think about before deciding whether to do rent-to-own?

You should consider:

- What happens if you lose your job? Do you have savings or other sources of income to keep making payments under the RTO agreement?
- How much are housing prices going up or down in your area? If the home purchase price ends up being higher than the market value of the home, you may not be able to get a loan for that amount. Some RTO agreements make that a condition of you buying the home.
- What if you don’t qualify for a bank loan when it’s time to buy the home? Do you have other options to get the money you need for the final purchase price?

I still want to do rent-to-own. How can I protect myself?

There are things you can do at all stages of getting to an agreement and signing an RTO agreement.

Both before and after signing a rent-to-own agreement:

- **Keep records:** Everything you've signed, and receipts for downpayment, rent, repairs, and property taxes, and invoices and receipts for all labor and materials you put into improving the property. Take photos of before and after any repairs or improvements you made. You'll need these if you must go to court.

Before you sign a rent-to-own agreement:

- **Have the home inspected.** Make sure it has no hidden problems. Have the landlord make any needed repairs before you sign or move in.

If the home isn't up to code, banks won't lend you what you need to buy it. Many sellers sell homes as RTOs because they aren't up to building, electric, or plumbing codes. If you must make a large, final payment to exercise the option to buy and you can't get a bank loan because the home violates code, you'll probably lose the home.

- **Have a professional appraise (value) the property.** Make sure you're getting a fair price.
- **Purchase a title search.** You can do this through your county recorder's office. Check if there's a co-owner you weren't told about, or if the seller has mortgaged the property. If so, talk to a lawyer.

Ask your landlord to share the cost of inspections, appraisals, and title searches.

- **Get the RTO in writing and reviewed by a lawyer.** Hiring a real estate attorney or talking to a lawyer before signing can protect your rights and could even help you get a better deal.
- Make sure the written agreement includes a proper legal description of the property (the street address isn't enough), and the date that you can buy the property or pay a last sum to get the property. A more detailed RTO agreement makes it more likely that you have a valid RTO that a judge will hold up in court if need be.
- The RTO must be signed by you and the landlord/seller, and notarized.

Don't sign anything you can't read or understand. Don't trust the landlord/seller or their agent to tell you what the agreement says.

If the RTO isn't in writing, doesn't include legal information, or otherwise have enough needed information, a judge won't be able to order the landlord to sell you the home.

If English isn't your primary language, make sure the agreement is either translated into your primary language. If your landlord won't do it, ask someone you trust to do it.

After signing the agreement:

- **File the RTO agreement at the County auditor's office.** This protects your investment by creating a record for future creditors, lenders (banks), and others that you have an option to buy the property.
- **Make sure you and the landlord follow the agreement.** Check if the landlord is paying the taxes and insurance, if required to. If you miss a payment or violate the lease or agreement some other way, catch up or fix the problem right away. If you act quickly, you might avoid a notice ending the tenancy. Try to get legal help right away if the landlord isn't following the agreement.
- Once you finally buy the property and the title is in your name, the seller can no longer evict you from the property.

I'm not sure the written agreement I have is rent-to-own. How can I tell?

Usually there's language in the agreement saying, "rent-to-own," "lease-option," "lease purchase," or "option to purchase." Try to talk to a lawyer to find out how your agreement works.

I'm already in an RTO Home. When will I own my home?

It depends. Every agreement is different.

Carefully read your RTO agreement (or try to have a lawyer review your agreement) to learn when you can transfer the house to your name, and how and when it expires. You're a renter until you exercise the option to purchase.

This means following the correct steps to notify the landlord that you've decided you want to own the home. The agreement should explain how you exercise the option.

Some RTOs won't let you exercise the option until the end of the rental period, many years out.

What if my RTO agreement isn't in writing or is missing the legal description or notarization?

The landlord may claim that there is no rent-to-own agreement or that the agreement isn't enforceable.

A judge might still order the seller to transfer the home to you (enforce an RTO deal) if you took possession of the home, paid rent, and made substantial improvements to it. **This is a complicated legal argument. Try to talk to a lawyer.**

Can I get out of an RTO deal?

Maybe. Know your legal options before deciding what is best for you. Talk to a lawyer to find out if it's better for you to move out, try to get your money back, or try to buy the home.

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