There are 4 numbers to look at on a LO.

Option Price

Assignment Fee

Rent Credit

Lease Payment

First, the Option Price.  When a seller e-mails me their info or calls me, I always ask if it's listed, or if it was listed, for how much, then I ask what they owe.  I then go to tax records and Zillow (or Realtor.com etc) to start "triangulating" numbers.  This is much easier than it sounds, but I'm just trying to figure out WHAT IS IT WORTH?  I want to set the Option Price to be very very close to what I think it will appraise for.  The list price gives me a reference, as does the info from the listings around that house based on price per sf.  So..if an owner has a house listed at say...$194,000....I look to see if that is in line, or a bit low etc. based on listed price per sf.

Second...the Option Fee...the assignment fee  I try to get about 3% or so on the assignment fee.  Maybe a bit more on houses that are above FHA loan limits, as the buyer will need 5% down at finance.  So..let's use the $194,000 above as a sample...  I do my research..(takes 3 minutes) and I see that based on the average price per sf in the area of listed houses, it should appraise for around $203k or so.  I'd probably set our assignment fee at $6500  Now, the goal, as I tell the seller, is we like to RAISE the list price by our fee, or at least most of our fee, if we think the market will bear it. Sometimes it doesn't.  So, in this case, we might set the Option Price at $198,900  Remember, we can be higher than the list price, but we can't be TOO much higher, or our buyer will feel like they are getting ripped off.  \*\*We can't just arbitrarily raise the price by whatever we want!!  It has to appraise at finance and we are NOT here to take advantage of people!!!

So, we normally pay the owner $1k or so of our fee, depending on the price.  So:  $198,900  - $6500  = $192,400 + we'll give the owner $1k so $193,400

Next, the lease payment...  We base this on 2 main things, then 1 3rd thing...  1) what are the owner's payments?  2) What will the buyer's payments be at finance?  3) How quickly does this need to move?

In most cases, we can get the payments covered, but sometimes the owner makes a little each month, sometimes they lose a little bit.  But we don't set the payment so low the buyer will have "payment shock" at finance and the lender turns them down....I've seen that happen. (It wasn't our fault!)

So, on this $198k house, we'd likely set the payments no lower than $1595, and I'd prefer to see them around $1695 or so.  I'm in TX and we pay a lot in property taxes, so...there you go.

Lastly...  Rent Credits:  Ahhh..the rent credit...this is where people just lose it trying to figure out how they work, where they go, how do we explain them etc....  Our Option to Purchase contract that our lending lady Rachel sends out to the underwrite with the file, says NOTHING about a rent credit. Just a Seller Concession.  We don't give "monthly rent credits".  It's just a flat amount. $3600, $4200 etc. depending on the price of the house.  If the lender sees "rent credit of $300 per month..." then the lender will likely request a rent rate appraisal where the appraiser then tells the lender " the rent rate for that house would be $1695.." so..the lender tosses the rent credit" in the trash, because they would require the buyer to pay $300 ABOVE rent rate to utilize that rent credit.  SO, we don't mention a rent credit, just a concession.  Besides, the rent credit is in fact nothing more than a concession that helps the buyers with funds to close (closing costs).  So, in this case, we'd probably put the concession at $3600.

So:  $198,900  - $6500  = $192,400  + the $1,000 we gave them from the $6500  = $193,400  - $3600  - =$189,800 This is what the seller can anticipate, prior to closing costs and payoff.

Now, a few things to note:  The assignment fee (if you have good docs) will reflect towards the lender's required down payment. (3.5% FHA)  The rent credit (concession) (if you have good docs) will go towards funds to close.  You can NOT use the rent credit towards the down payment!  That would be like the seller saying "We are going to help on the down payment"  Nope.  It is almost an impossibility for the lender to allow the rent credit to go towards principle (price) reduction. Because now you have to rewrite the contracts.  This can very quickly become a mess.  You can't just RAISE the price by your fee and the rent credits. The house has to appraise for the option price.  A lease option is not a cure all. The numbers have to make sense for both parties.