



Resources for Achieving Successful Homeownership

- Minnesota Homeownership Center: www.hocmn.org
- Home Stretch (Low-cost homeownership classes): www.hocmn.org/buyingahome/home-stretch-workshop
- Mid-Minnesota Legal Aid: www.mylegalaid.org
- SHOP Bridge to Success Contract for Deed Program: www.shop-mortgage.org

Considering Buying a Home Using a Contract for Deed?

Know your Rights, Responsibilities, and Resources

Buying a house using a contract for deed is complicated. Many people do not appreciate the legal risks and obligations of buying a house with a contract for deed. The contract for deed has been used to buy and sell thousands of Minnesota homes, especially when the parties do not want to use or do not qualify for traditional mortgage financing. A contract for deed can be a bridge to successful long term home ownership.

A contract for deed is not a mortgage or a lease. The contract for deed seller is not a landlord; and the contract for deed buyer is not a tenant. The contract for deed buyer does not have the same rights or protections as a tenant. Additionally, the contract for deed buyer does not have the same rights or protections as a buyer purchasing with a mortgage.

What is a contract for deed? The buyer makes monthly payments to the seller for a few years, and then the buyer must make a “balloon payment” to finish paying the total cost of buying the house. If the buyer doesn’t have enough money to make the balloon payment, then the buyer will need to get a loan from a bank. If the buyer does not make the balloon payment and each of the monthly payments to the seller, then the buyer will lose the house and all the money the buyer has already paid to the seller. A contract for deed can be canceled in as quickly as 60 days. Once the contract is canceled, the seller can evict the buyer from the house.

Four things a buyer should do before signing a contract for deed:

1. Get an inspection and an appraisal.

Know what you are buying and how much it is worth—before you sign the contract—so you do not pay too much for the house. If you pay too much for the house, then it will be difficult to obtain the financing needed to pay the balloon payment. You can hire your own inspector and appraiser. You can also do your own research online and call the city and county where the house is located for more information about the condition and value of the house. Ask the city if there are any outstanding orders or citations on the house. The seller may also provide you with an inspection report.

2. Make sure the seller owns the house.

Determine who owns the house you want to buy, if there is a mortgage on the house, and if the mortgage is in foreclosure. If the seller does not own the house free and clear of a mortgage, you risk losing the house and everything you have already paid the seller if the seller loses the house to foreclosure. Contact the city to find out if there are any pending assessments or other charges to be billed against the house and if the city requires an inspection prior to the sale of the house. Ask the county if the seller owes any unpaid taxes. The county may not allow the contract to be recorded if there are unpaid taxes.

3. Make sure you can afford to be a home owner.

If you buy the house using a contract for deed, you will have to repair and maintain it. Find out the condition of major appliances, the furnace, the roof, and the windows. Contact the county to find out the annual property taxes and ask if the house is taxed as homestead or non-homestead. Review the seller’s proposed payment terms to determine whether property taxes and insurance are included in the monthly payment or if you will need to pay those costs in addition to the monthly payment. Make sure you can afford all these costs before you purchase the house. *Call the Minnesota Homeownership Center at 866-462-6466 for free advice.*

Resource Partners



4. Read the contract for deed.

Make sure you understand the contract. Will you be charged a penalty for paying off the contract early? Review the buyer's monthly payment, taxes, insurance, and repair requirements. Make sure you understand when the balloon is due. Review the interest rate. Call a few banks to compare the interest rate with a traditional mortgage interest rate. If you can qualify for a traditional mortgage, then you may be better off purchasing with a mortgage instead of a contract for deed. ***If you have any questions, ask a lawyer to review the contract with you before you sign it. (Legal Aid is a great resource for low-income households—see contact info below.)***

If you decide to buy the house, then:

1. Reread the contract before you sign it to make sure it is the same contract you previously read.
2. Sign the contract in front of a notary.
3. Get a copy of the contract from the seller. You should keep a copy with original signatures.
4. You must bring the copy of the contract with the original signatures to the county where the house is located and ask that the contract be recorded. The seller must provide you with a recordable contract. Recording the contract will protect you and is the only legal way others will know of your interest in the house and property.
5. If the house is non-homesteaded, then you may call the county or city where the house is located to apply for a homestead tax rate. The homestead tax rate is lower than the non-homestead tax rate.
6. You must repair and maintain the house.
7. You should not sign a deed (i.e., a quit claim deed) at the same time you sign the contract for deed. Some sellers ask their buyers to sign both of these documents at the same time so the seller can avoid the legal requirements to cancel the contract for deed.
8. You should purchase homeowners insurance.

If the buyer fails to do what the buyer agreed to do in the contract for deed, then:

1. The seller can serve the buyer with a notice of cancellation of the contract.
2. To stop the cancellation, the buyer has the right to pay the money needed to catch up on missed payments plus some additional costs listed in the notice of cancellation.
3. If the buyer receives the notice of cancellation from the seller and does not make the required payments, then the contract is canceled and the buyer cannot be sued for any payments.
4. If the buyer does not get a notice from the seller and the seller tries to evict the buyer, then the buyer should call a lawyer right away.

Consumer Resources

- *Contract for Deed: What Homebuyers and Sellers Need to Know* <http://bit.ly/VyZNOc>
- *"Renting to Own" a Home or Buying on a Contract for Deed* <http://bit.ly/UaJ5oV>
- Mid-Minnesota Legal Aid: <http://www.mylegalaid.org> and <http://www.lawhelpmn.org>
- Minnesota Homeownership Center counseling network: **(651) 659-9336** or **(866) 462-6466**; <http://www.hocmn.org>
- To report a complaint involving a Contract for Deed, contact the Minnesota Department of Commerce, Consumer Protection & Education Division at **651-539-1600** or **1-800-657-3602** or email the Division at consumer.protection@state.mn.us.
- SHOP Bridge to Success Contract for Deed Program: <http://www.shop-mortgage.org>