



## “RENTING TO OWN” A HOME OR BUYING ON A CONTRACT FOR DEED

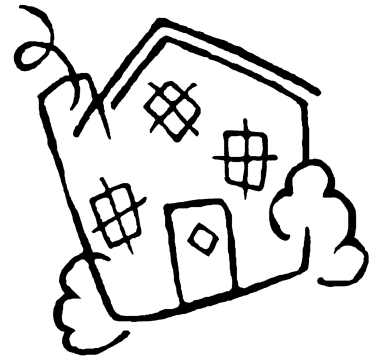
**BE CAREFUL!** Buying a house is complicated. Many people get into trouble when they rent a house with an option to buy it, or when they buy it under a contract for deed.

### THE DIFFERENCE BETWEEN “RENTING TO OWN” AND A CONTRACT FOR DEED

“Renting to own” usually means renting with an option to buy. Under this kind of agreement, you are still a tenant, and the seller is still a landlord, until the final purchase. A contract for deed is very different. As soon as you sign the contract, you are responsible for repair and maintenance, and usually for the taxes and insurance.

### TIPS ON RENTING TO OWN

- Get the agreement in writing! Don’t agree to anything that is not written down. The law will not enforce agreements to buy a house unless they are in writing!
- Make sure the agreement says what part of your payments are rent and what part go toward the purchase.
- Make sure the agreement says when the actual sale will be, and what the terms will be. It should say if the sale will be by a contract for deed, or if you need to get a mortgage. If you need a mortgage, talk to a bank to see if you qualify for one before you sign the agreement.
- Make sure the seller really owns the home. Go to your county recorder’s office and ask for help to find out who owns the home.
- Many rent-to-own agreements say that you have to make a down payment when you sign. You may not get the down payment back if you do not buy the home. Read the agreement carefully.
- Watch out for scams. Some landlords do not really want to sell the home. They use rent to own agreements to get more money from tenants or to get tenants to do work on the home. Make sure you read the agreement carefully before you sign.



### WHAT IS A CONTRACT FOR DEED?

- A contract for deed means that instead of paying the seller all at once, you buy the house over a period of time, like 5 years. Usually, you make monthly payments for a few years, and then you have to make a big “balloon payment” to finish buying the house. To make a balloon payment, you usually need to get a mortgage from a bank. If your contract for deed has a balloon payment, make sure you will be able to get a mortgage. Otherwise, you will lose the house and all the money you have paid!
-

- If you don't make all of your payments, you will lose the house. The payments you have made will be wasted. You will also lose the value of any improvements you made to the home. If you do not make your payments, a contract for deed can be canceled in 60 days, much faster than a mortgage. Once the contract is cancelled, you can be evicted. You won't have much time to make up for missed payments.

### **GET AN INSPECTION REPORT BEFORE SIGNING AN AGREEMENT**

Before signing any agreement to buy, ask the seller for an inspection report, sometimes called a "Truth in Sale of Housing Report." This report is from an independent inspector about the condition of the house. It is required in Minneapolis and St. Paul and some other cities. If no report is required, get your own expert to inspect the house.

### **CONSIDER GETTING AN APPRAISAL BEFORE SIGNING AN AGREEMENT**

If the purchase price on the contract is too high, you may not be able to get a mortgage to pay it. An independent appraiser can help you learn the value of the home. If you do not want to pay for an appraisal, do your own research. Sources like [www.zillow.com](http://www.zillow.com) can help you get a good idea of how much the house is worth.

### **MAKE SURE THE SELLER IS ACTING LEGALLY WHILE YOU PAY**

- **Make sure the person you are buying from owns the home.**  
Go to your county recorder's office and ask for help to learn who owns your home. Make sure the home is not in foreclosure. After you and the seller have signed the contract for deed **in front of a notary**, the seller must give you a copy of it with original signatures.

**IT IS VERY IMPORTANT** that you record the contract for deed at the county recorder's office so others will know you have an interest in the property.

The county recorder's office may not allow you to record the contract for deed until past due taxes are paid. Usually the seller must pay any past due taxes that are required to be paid prior to recording. Before you sign, check with your county's property tax department to make sure there are no past due taxes.



- **If the seller has to pay a mortgage on the property, or taxes, or insurance, you should check on it now and then to make sure they are paying.**  
Some "scam" sellers will keep a buyer's payments and not pay the mortgage. If the seller does not pay the mortgage and the home is foreclosed, you will lose the house and all the money you paid.

Check the county recorder's office for information on the mortgage company or companies. Get written authorization from the seller to contact the mortgage company. Find out from the mortgage company if the payments are up to date. Find out how much the seller owes to the mortgage company. If the seller owes more than the purchase price on the contract for deed, you may not be able to buy the house.

- **If you default, make sure the seller follows state law.**

The seller must serve you with a notice of cancellation of your contract for deed. If you get this notice, you have the right to pay the amount of money needed to catch up, plus some additional costs. The notice should list the additional costs for you. If you get the notice, you can't be sued by the seller for any payments you have missed. If you do not get a notice and the seller tries to evict you, call a lawyer right away.

## **PLAN ON THE ADDED COST OF OWNING**

- If you sign a contract for deed, you have to repair and maintain the home. To protect yourself, know the condition of the home you buy. Otherwise it may cost you a lot of money to keep it up.

For example, you can be tagged by the housing inspector if your house needs to be painted or other repairs are needed. If the furnace breaks, you have to fix it. If you don't make the repairs, the house could be condemned and you would have to move out.

- Find out about the property taxes. Homes are taxed as homestead or rentals. Rental property tax costs more. If the property was not homesteaded and you move in after June 1, you'll pay taxes at the higher, non-homestead rate for the rest of that year. You may apply for a homestead tax rate at your county's property tax department.

Make sure the contract for deed states whether property taxes and hazard insurance are included in your monthly payments or whether you need to pay them in addition to your monthly payments.

## **UNDERSTAND THE INTEREST COSTS**

**Your payments on the contract for deed will also include interest.**

For example, if you buy a \$100,000 home with no down payment and a 10% interest rate on the contract for deed, you will pay about \$10,000 in interest during the first year. So if you pay \$1,000 a month, at the end of the first year you will have paid only \$2,000 of the house price and \$10,000 in interest. You will still owe about \$98,000 on the house after paying \$12,000.



Some contracts for deed have interest-only payments. This means that none of your payment goes toward the house price. When your balloon payment is due, you will still owe the whole cost of the home. Before you sign a contract for deed, call up some banks to compare the interest rate the seller offers you with the interest rate on a mortgage. If you can get a mortgage loan, it is usually better to buy your house with a mortgage than on a contract for deed.

To find other Legal Aid Society materials, including the fact sheets mentioned in this document, go to [www.lawhelpmn.org/LASMfactsheets](http://www.lawhelpmn.org/LASMfactsheets).