



## Tips on Renting to Own and Buying on a Contract for Deed

**BE CAREFUL!** Buying a house is complicated. Many people lose money when they rent a house with an option to buy it, or when they buy it using a contract for deed. It is best to get expert help.

### The Difference Between “Renting to Own” and a Contract for Deed

**Renting to own** usually means renting with an option to buy. When you make this kind of deal, 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 deal 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 are. 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 can get one before you sign the agreement. Find out what the true costs will be.
- 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.
- At the county recorder's office, find out if the seller has a mortgage on the property. Make sure the purchase price will be enough for the seller to pay off the mortgage. If the mortgage is not paid you can end up losing 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. Some landlords try this because they lost their rental licenses. Make sure you read the agreement carefully before you sign.
- Some landlords try to make you responsible for repairs to the home under a rent-to-own agreement. This is illegal. You are a tenant and have all the rights of a tenant. See our fact sheet [H-1 Basic Information for Tenants](#).

## **Tips on Contracts for Deed**

### **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. If you can't, 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 already made are wasted. You also lose the value of any repairs and improvements you made to the home. If you do not make your payments, a contract for deed can be canceled in 60 days. That is much faster than a mortgage. Once the contract is canceled, 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. This type of inspection does not show all types of problems that a house may have. Consider getting your own expert to inspect the house.



### **Get an Appraisal Before Signing an Agreement**

If the purchase price on the contract is too high, you will not be able to get a mortgage to pay it. An independent appraiser can help you learn the value of the home. Real estate agents may also give you an opinion about the value, called a “Broker’s Price Opinion.” 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 some idea of how much the house is worth.

## Some Sellers Must Give You Information About the Contract Before You Sign

People and companies that sell multiple houses by contract for deed must give buyers information about the deal. A buyer has 5 days to review the information before the deal. If you were not given 5 days to review the contract for deed before signing, you may have a legal claim against the seller. Ask a lawyer for help.

## 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. Some counties have this information online.

After you and the seller sign the contract for deed **in front of a notary**, the seller must give you a copy of it with original signatures. You need this to "record" the contract for deed with the county. This means the county has the information on file.

**IT IS VERY IMPORTANT** that you record the contract for deed at the county recorder's office. This lets others know you are interested in the property. It is your responsibility to do this.

The county recorder's office may not let you record the contract for deed until past due property taxes are paid. Usually the seller has to pay these. Before you sign the contract, 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. Try to get written permission from the seller so that you can contact the mortgage company to keep track of payments.

But you should also ask the seller to show you a recent mortgage statement. And ask for copies of statements at least once every few months. If you can't get this information, the Rent to Own or contract for deed deal is even more dangerous.



- **If you miss a payment, make sure the seller follows state law.**  
The seller must serve you with a notice of cancellation of your contract for deed to end the deal. 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 the seller tries to evict you, call a lawyer right away.
- Do not agree to sign a deed back to the seller at the same time you sign the contract. Do not agree to sign a deed back to the seller at any time. Some sellers ask buyers to sign deeds so they can avoid the legal cancellation process. A deed to the seller does not help you in any way.

### **Plan on the Added Cost of Owning**

- If you sign a contract for deed, you are in charge of repairs and keeping up the home. To protect yourself, know the condition of the home you buy. It will probably cost you a lot of money to keep it up.

For example, you can be fined by the city if your house needs to be painted or needs other repairs. 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. You lose all the money you paid so far.

- Find out about the property taxes. If you live in a home you own, you may qualify for cheaper property taxes. Apply for a "homestead" tax rate at your county's property tax department.

Make sure the contract for deed states if 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 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 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.

Make sure your contract for deed does not say that there is a penalty for paying off the contract early. Pre-payment is good because it lets you try to get a traditional mortgage and pay off the contract at any time. A contract for deed works best as a bridge to home ownership. Use the time to work on repairing your credit so that you can qualify for a mortgage and pay off the contract for deed.



For Home buying advice, contact:

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<http://www.hocmn.org>

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Find your local legal aid office at [www.lawhelpmn.org/resource/legal-aid-offices](http://www.lawhelpmn.org/resource/legal-aid-offices)

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