UNDERSTANDING A CONTRACT FOR DEED

If you are considering entering into a Contract for Deed, it is important to understand that it is not the same as a mortgage loan. Instead, a Contract for Deed is an agreement to buy a home from a seller, while the seller keeps ownership of the home. Buyers make their payments directly to the seller for a certain number of years and then a balloon payment (or remaining balance) is due. This fact sheet provides answers to Frequently Asked Questions about Contract for Deeds.

FREQUENTLY ASKED QUESTIONS

Is it easier to buy a home with a Contract for Deed?
Entering into a Contract for Deed involves many of the same steps as buying a home with a mortgage loan. One major difference is you do not have the same protection rights, since the seller retains ownership. We strongly recommend consulting a real estate attorney before signing a Contract for Deed.

What is included in the monthly payment?
The monthly payment includes principle, interest, property taxes and insurance. The seller determines the interest rate and how much of your payment is used to pay the principle (or balance). Generally you pay the seller directly for property taxes and insurance. You may want to request proof from the seller that both the property taxes and insurance are paid.

Who is responsible for repairs and maintenance?
You are responsible for repairs and maintenance, including the cost. If you fail to maintain the home or make repairs the seller can cancel the contract.

What happens if the Contract for Deed is canceled by the seller?
A Contract for Deed is generally canceled if you miss a payment or do not maintain the property. If the seller cancels the contract you have 60 days to resolve the reason. This includes paying fees to reinstate the contract. If the contract is not reinstated, you are required to leave the home. You also lose any money you have paid the seller.

Will I be required to make a down payment?
Sellers often require a down payment, but most of the time the amount can be negotiated. Any down payment paid to the seller should be applied the principle.

Are there closing costs for a Contract for Deed?
Yes, there are closing costs and they are very similar to a mortgage loan closing. The seller may be willing to pay some or all of these costs. We strongly recommend you have the closing done by a title company who can complete a title search and ensure the seller is the legal owner. A title company will also use the Contract for Deed Minnesota Uniform Conveyance form 30.1.1 that can be found at www.commerce.state.mn.us; and record the Contract for Deed with the county recorder’s office. State law requires all contracts to be recorded within four months.
For additional information speak to a Homeownership Advisor in your area by contacting the
Minnesota Homeownership Center: 651-659-9336 or 866-462-6466 or www.hocmn.org