



HOW DOES A CONTRACT FOR DEED WORK?

With a contract for deed -- sometimes called an installment purchase contract or installment sale agreement -- the purchase of a property is financed by the seller rather than a bank, credit union or other mortgage lender. It is often used when a buyer does not qualify for a conventional mortgage. Unlike a mortgage, ownership of the property is not transferred until the last payment is made on the contract -- that means you can't refinance or take out a second mortgage for home improvement.

Contracts for deed have long been a financing option for property transactions between family members or friends. Some nonprofit housing organizations also use them to help low-income families find a path to homeownership.

WHAT ARE THE RISKS?

A contract for deed can appear simple and straightforward, but this financing option can pose a number of pitfalls. Many buyers with contracts for deed never become full owners of the property and they risk losing all the payments they made toward ownership.

Contracts for deed lacks many of the consumer rights and protections available under state and federal laws for homebuyers who have conventional mortgages. If the buyer fails to make a payment or is in default on other conditions of the contract, the seller can cancel the contract, evict the buyer, and quickly reclaim the property without a foreclosure sale or judicial action.

TIPS IF YOU'RE CONSIDERING A CONTRACT FOR DEED

- ★ Apply for a conventional mortgage first to see whether you qualify
- ★ Consult with a lawyer or a certified housing counselor to understand the pros and cons
- ★ Get an independent appraisal and a professional inspection of the property you're considering buying

- ☆ If you enter a contract for deed, record it with the county recorder or registrar to help prove your possession of the property and protect you from possible post-contract “encumbrances” placed on the property by the seller

AVOID CONTRACT FOR DEED SCAMS

- ☆ **“Sandwich” deals**

This was a common trick used after the 2008 financial crisis. Scammers find home owners in default, offer to take over their mortgage, catch up on payments and pay them to move. They find someone with a down payment looking to buy on a contract for deed, collect the down payment, collect monthly payments and not pay the mortgage. The “real estate investor” ends up with the down payment and 6-8 months worth of payments and contract for deed buyer finds out the house is being foreclosed on. The original home owner ends up with a foreclosure on their record.

- ☆ **Paying for access fees to a list of homes**

If you land on a website that charges you a “small fee” to access a list of contract for deed homes – stay away. These websites present a “secret list of homes” that you won’t find anywhere else. Here is the truth – there is no secret list of homes.

- ☆ **Sounds too good to be true**

When you buy a home on a contract for deed, usually the contract is written in the favor of the seller. The buyer pays higher interest rate, larger down payment and often a higher price for the house. If you see a home for sale offered on contract for deed terms that sounds too good to be true – most likely something is wrong.

- ☆ **Extremely high price**

Always check the comps of the neighborhood to see if the price that you are paying is fair. If you do not understand how comps work, don’t attempt to do it on your own. Using a buyers real estate agent in Minnesota is FREE (they are paid by the seller) so why not hire a professional?

- ☆ **Skeptical owners or agents**

Do a thorough background check on the owner or agent that you are working with. Make sure that seller of a contract for deed home is a true owner of the property. If you are working with an agent, make sure it is a licensed real estate agent in good standing. Sometimes all is needed is a simple Google Search.

- ☆ **Upfront and questionable fees**

There are tons of contract for deed ads for homes that do not exist and some of them will ask you to pay a fee before you can view any homes. If you see retainer fees, application fees, etc – make sure you are not sending money to scammer.

- ☆ **Seek legal advice**

If you are signing a contract that is unclear or has words you do not understand – hire an attorney. Contract review is inexpensive and well worth it. You are buying a house, not a TV, so do your homework and protect yourself and your financial future.

This information has been adapted from Re/Max Results: contractfordeed-mn.com/

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