



What You Need to Know About Renting to Own and Contracts for Deed

BE CAREFUL!

Buying a house is complicated. Many people lose money and time 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 before you buy.

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

Renting to own usually means renting now, with an option to buy later. 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 the homeowner in every way, except you don’t have the title yet. You are responsible for repair and maintenance, and usually for the taxes and insurance.

Renting to Own

- Get the deal in writing! Don’t agree to anything that is not written down. The law doesn’t 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 are counted toward buying the house.
- Make sure the agreement says when the actual sale is, and what the terms are. It should say if the sale is 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 rent to own agreement. Find out what the true costs are.
- 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. In some larger counties, property records are available online. Call your county property records office to find out.
- At the county recorder’s office, or online, find out if the seller has a mortgage on the property. Make sure the purchase price they told you is enough for them to pay off their mortgage, and that they are required to pay it off. 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. This is different than a security deposit. You can usually get security deposits back, but 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 don't really plan 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 or just don't want to make repairs. Make sure you read the agreement carefully before you sign. And inspect the property so you know what condition it's in.
- 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 [Basic Information for Tenants](#).

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 2-3 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.

Contracts for deed are really expensive and are often not a good deal! It is almost always a better choice to wait to buy a home until you qualify for a traditional mortgage.

If your contract for deed has a balloon payment, make sure you can get a mortgage before you agree to the contract for deed. If you have problems with your credit, start working to fix them before signing a contract for deed. You can find a free financial counselor with a program like Lutheran Social Services. Contact them at: financialcounseling.lssmn.org or 888-577-2227.

Credit repair can take time. Your credit might not be good enough for a mortgage when the balloon payment is due. If you sign a contract for deed but can't get a mortgage, you will lose the house and all the money you have paid!

Beware!

Contracts can hide numbers that can hurt you! There could be a balloon payment that is called something else in the fine print or not mentioned at all but hidden in the numbers. Read the terms carefully and use a calculator or an online "amortization calculator" to do the math. The law says sellers who regularly sell houses by contract for deed have to give you written notices that tell you about the terms of the deal. If they don't give you the written notices, ask for them.

When you buy a house on a contract for deed, you don't get the title to the house (the deed) until the final payment is made!

What happens if I can't make payments?

If you don't make all of your payments, including the balloon payment, you lose the house. The payments you already made are wasted and kept by the seller. You also lose the value of any repairs and improvements you made to the home.

If you don't make your payments, or if you violate the contract in any way, it can be canceled in either 60 days or 120 days. The amount of time depends on who is selling you the home. Check with a lawyer if you get a cancellation notice. The lawyer can help you figure out the amount of time you have to correct the violation. A violation could be something like not making a property tax payment.

60 or 120 days is much faster than the foreclosure process with a mortgage. If you don't catch up on payments in those 60 or 120 days, the contract is cancelled, and you can be evicted. You still have rights if a seller tries to end your contract. If that happens, call your local legal aid office at 1-(877) 696-6529 right away!

If you can't catch up on the payments, you should move out of the house before the 60 or 120 days are up. Then you don't get an eviction on your record. Having an eviction on your record can make finding a place to rent very hard.

Make sure the person you are buying from owns the home and has paid the taxes

Go to your county recorder's office and ask for help to learn who owns your home. Before you sign the contract, check with your county's property tax department to make sure there are no past due taxes. Make sure the home is not in foreclosure. Some counties have this information online. Call your county recorder's office.

The seller has to record the contract with the county recorder. This means that it is public record for anybody who looks up your property. If the seller does not record the contract with the county recorder, they can't cancel your contract.

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." Also called "TISH." 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, only the basics. Think about getting your own expert to also inspect the house.



Get an appraisal before signing an agreement

If the purchase price on the contract is too high, you won't be able to get a mortgage to pay it. An independent appraiser can help you learn the true 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 can help you get some idea of how much the house is worth. You can also check to see if your county posts an "estimated market value" online. It's usually on the same page as property tax information.

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 written information about the deal. A buyer has 10 days to review the information before the deal. If you were not given 10 days to review the contract for deed before signing, you may have a legal claim against the seller. They have to give you detailed notices too. Ask a lawyer for help.

Make sure the seller is acting legally while you pay

- **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. The seller has to "record" the contract for deed with the county. This means the county has the information on file.

IT IS VERY IMPORTANT that the seller record the contract for deed at the county recorder's office. This lets others know you are interested in the property.

- **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 keep a buyer's payments rather than using them to pay the mortgage. If the seller does not pay the mortgage and the home is foreclosed, you lose the house and all the money you paid.

Check the county recorder's office for information on the mortgage company or companies. Some, but not all, sellers have to tell you if there is a mortgage. 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. Ask for copies of statements at least once every few months OR add it into your contract that the seller has to give you monthly statements. If you can't get and keep reviewing 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 other added on costs. The notice should list the other costs for you. If you get the

notice, you can't also be sued by the seller for payments you missed. If the seller tries to evict you without going through the cancellation process, call a lawyer right away.

Don't agree to sign a deed back to the seller at the same time you sign the contract. Don't 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. Giving a deed to the seller doesn't help you in any way.

Plan on the added cost of owning

Repairs: If you sign a contract for deed, you are in charge of repairs and keeping the home in good condition. 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, or the seller could cancel your contract. Either way, you would have to move out. You lose all the money you paid so far.

Property Taxes: Find out about the property taxes. If your primary residence is the home you own, you may qualify for cheaper property taxes. Apply for a "homestead" tax rate at your county's property tax department. Your primary residence is the home you live in the most.

Make sure the contract for deed says if property taxes and hazard insurance are included in your monthly payments. Or if those are another cost you need to pay separately.

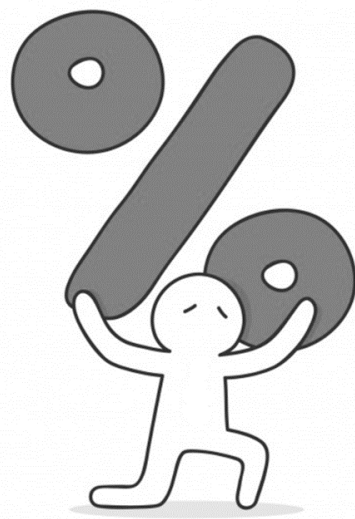
Understand the interest costs

Your payments on the contract for deed 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 have paid only \$2,000 of the house price and \$10,000 in interest. You 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 monthly payments go 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.

What else does the seller have to do?

The seller must continue your contract if it is transferred using a “transfer on death deed,” to a spouse or child, under a divorce or separation agreement, or into a “living” trust. The seller cannot charge you a “private transfer fee” either.

Can I pay a contract for deed off early?

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 can be a bridge to home ownership if the contract is fair. Use the time to work on repairing your credit so that you can qualify for a mortgage and pay off the contract for deed.

Note: the seller does not have to report your contract payments to credit bureaus, so on time payments don’t always help your credit. Sometimes you can add required credit reporting into your contract.



For Home buying advice, contact:

Minnesota Homeownership Center

1000 Payne Avenue, Suite 200
Saint Paul, MN 55130

Phone: 651-659-9336

Toll Free: 866-462-6466

<http://www.hocmn.org>

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