

Neighborhood Planning for Community Revitalization

150 Hubert H. Humphrey Center

Impact of Contract for Deed Sales in Frogtown

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**Center for Urban and Regional Affairs
University of Minnesota
330 Humphrey Center**

Impact of Contract for Deed Sales in Frogtown

Conducted on behalf of Greater Frogtown Community Development
Corporation
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EXECUTIVE SUMMARY

In January of 1998 the Greater Frogtown Community Development Corporation received funds from the Center for Urban and Regional Affairs in affiliation with the Neighborhood Planning for Community Revitalization project for a research assistant to find out the extent and impact of contracts for deed in the Frogtown neighborhood. The contract for deed research project began as a result of the numerous calls to the Greater Frogtown Community Development Corporation from individuals on contract for deed looking for home improvement funds. Unfortunately, due to the restrictions on the allocation of funds, contract for deed holders are not eligible for the home improvement money.

Information was gathered in several fashions. First, the basic information about contract for deeds was found in law books and by talking with attorneys. Secondly, individual interviews were conducted with contract for deed buyers in Frogtown by Penny Andresen, research assistant, or with Jill Nikodym, Housing Resources Manager. Further information was obtained through focus groups held with contract for deed sellers and community organizations around the Twin Cities. The information was gathered with the hope of developing educational material.

The results were somewhat surprising. Not everyone in a contract for deed thought they were in a bad situation. Fortunately, those we talked to they had not their contracts canceled. However, there were several people that we did try to contact that had been through the cancellation process but could not find them. Their stories and opinions would probably be different than those we spoke with. Out of eleven people interviewed, seven said that they would buy on contract for deed again if they had their own appraiser, inspector and lawyer to look out for their best interest. Four individuals used their own lawyer and felt that without their help they would have been taken advantage of. Even in the focus group with all sellers they admit that if buyers do not understand contract for deed they have the potential to be taken advantage of.

In order to increase the success rate of contracts for deed the advisory committee developed recommendations to equalize the bargaining power among the buyers and sellers. Recommendations were made at three different levels (individual, local, state) to increase the ability for one or several to be adopted.

The first level is the individual level. At the individual level the best action a buyer can take is to be aware of the all the property's condition and the terms of the contract before buying. As we learned from four of our participants hiring a lawyer is the best thing they could have done. The advisory team used their example to recommend that individuals find their own inspector, appraiser and lawyer insure equally bargaining power.

Recommendations were also established for the local level to require that appraisals and inspections are done before the property is sold and to insure that inspection citations show up on a truth in housing statement. Another recommendation put forward is to change in the city statute for the current owner to bring the house up to code before the house can be sold. This type of law has been tried in other cities and soon may be passed in Minneapolis.

At the state level the most easily enforced recommendation would be to standardize all contracts for deed to include important basic information. A policy such as this would allow for buyers to call into question, at any time, any information contained in the contract that they are not clear on.

ACKNOWLEDGEMENTS

As the research assistant on this project I would first like to thank Jill Nikodym, the Housing Resources Manager at the Greater Frogtown Community Development Corporation. She has been as the driving force behind the research and her contribution to the project has been equal to my own. I thank her for all the help and hard work she put toward this project even when her time was scarce.

Thank you also to all those that aided us in our efforts to find out about contracts for deed in the Frogtown/St. Paul area. A special thank you to the residents of Frogtown and to members of our advisory board: Michael Hagedorn, Maggie Rein, Jerry Ritter, and Kathy Zweber. They each volunteered their time and expertise to this project and provided uniquely valuable insight.

Many other people also gave of their time to provide us with information and support to our project. I would like to thank Andy Dawkins, Jim Erchul, Ray Eyler Deinsa Farley, Virginia Fritz, Ed Goetz, Marcy Groves, Michael Hecht, Hal Clapp, Mark Agnessi, Julia LeMense, Betty Moran, Marsha Moremand, Jane Mueller, Kris Nelson, Ann Norton, Pat Olawsky, John Otteson, Allen Peterson, David Riley, Caty Royce, Dennis Scanlon, Eric Talsness, Maynard Vinje, Michelle Vojacek, and Bernie Waibel.

INTRODUCTION

Greater Frogtown Community Development Corporation (GFCDC)

The Greater Frogtown Community Development Corporation is a non-profit neighborhood based organization whose mission is to promote quality, affordable housing through home improvement funds such as window replacement programs. The GFCDC has also been involved with building homes on vacant lots to furnish affordable home ownership and fill in lost housing stock. The organization works with Twin Cities Habitat for Humanity, The Builders Outreach Foundation, the St. Paul/Ramsey County Department of Public the Minnesota Housing Finance Agency, and the St. Paul HRA and Department of Planning and Economic Development to provide a full range of resources to the Frogtown citizens.

Population and Housing Background for Frogtown

In the 1870s and 1880s, German, Polish and Irish immigrants came to the Frogtown area. The settlement was guided by the three Catholic parishes; St. Agnes (German), St. Adalbert's (Polish) and St. Vincent's (Irish) each containing a church, school and parish hall. Their impression is still seen today in the Victorian vernacular work, middle class homes and corner stores providing an atmosphere of a small town. The patterns of immigration have changed and today the largest population of immigrants to the Frogtown area are Hmong.

The housing situation has also changed. The housing stock continues to age and today over 60% of the housing in Frogtown are rental properties with 508 vacant homes. According to the 1990 Census information for district 7 most (272) of vacant homes are also rental properties. Eighty-one are for sale only, sixty-two have been rented or sold but currently unoccupied and three are seasonal residence. There are another 90 vacant properties, but the status is not known. The duration of vacancies breaks down in the following manner:

Less than 2 months

total	128	rent	95	for sale only	11	other vacant	22
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2- 6 months

total	212	rent	110	for sale only	31	other vacant	71
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> 6 months

total	168	rent	67	for sale only	39	other vacant	62
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With the median household income of only \$16,645 and the average price of a vacant home being \$47,123 people may find buying and maintaining a home difficult.

Goals and Objectives of the Research Project

The final goal of this project has a theoretical and a practical component. The theoretical component is to understand the extent and the impact of contracts for deed in the Greater Frogtown neighborhood. The practical component is turning this information into a product to benefit people in the community. One product would be educational materials for potential buyers before they purchase a house using contract for deed. Another product would then be a final report, including recommendations for improving the success rate of contracts for deed to the GFCDC Board of Directors.

In order to achieve these goals there were several objectives established by the GFCDC board and staff.

Objective:

1. To gain a working understanding of the legal structure of contract for deed and the rights and responsibilities of all parties represented in the transaction.
2. To determine the extent of contract for deed financing within a targeted area of Frogtown and identify patterns in these transactions
3. To establish a correlation between contract for deed financing and its impact on condition and market appeal.
4. To develop anecdotal information to illustrate the legal and financing problems
5. To develop written education material to inform buyer
6. To prove or disprove the folk knowledge that contract for deed "churning" is occurring in the neighborhood at the hand of several real estate companies and agents.

Each objective was met each to a different extent and the results of the research are contained in the data research process and results section.

METHODOLOGY/DATA RESEARCH PROCESS

The data research process is included because they are very important to the type of results that were obtained. The section is organized by the objectives set forward by the initial work plan and then the research methodology is given for each of the objectives. Most of the results are stated in the results section unless they only pertain to that specific objective and need no explanation.

Objective 1: To gain a working understanding of the legal structure of contract for deed financing and the rights and responsibilities of all parties represented in the transaction.

Method: In order to fill this objective a library research, internet searches and discussions with attorneys were conducted providing us with information needed to understand the fundamentals of contract for deed in Minnesota and St. Paul. The information obtained was compiled and used for this document, and educational material for future contract for deed buyers.

Objective 2: To determine the extent of contract for deed financing within a targeted area of Frogtown and identify patterns in these transactions.

Method:

- 1) By looking at tax records it was believed that contract for deeds could be identified by a difference found between fee owner and taxpayer.

Note: As a result of our activities we found out that if the taxpayer and the fee owner are different it does not necessarily indicate a contract for deed and vice versa. We found out that taxes are billed to the name indicated on the form when filled out. The name does not necessarily have to be the person in the house.

- 2) Using the Property Identification book, the number of contract for deed properties located in the Frogtown area were counted to determine to what extent contracts for deed are used in Frogtown.

Objective 3. to establish a correlation between contract for deed financing and its impact on condition and market appeal.

Method:

- 1) Asked questions about condition of property in individual interviews and in focus groups.

- 2) Looked up the number of contract for deed properties in the Highland area. Compared the results to those found in Frogtown (Highland= 5% and Frogtown = 12%)

Objective 4. To develop anecdotal information to illustrate the legal and financing problems

To meet this objective we conducted four activities to get in touch with people in a contract for deed housing situation.

Activity I - Mailing

Method: At first a mailing was sent to 100 recorded contract for deed holders. Forty-eight were chosen randomly from our list of contracts for deed and 52 were from the list of people with multiple properties. Our letter told them about the organization and the research project. A week later I followed-up with those numbers found in the reverse directory.

As a last effort we tried at least flier to the last 339 people. We successful flied 128 people and mailed to the remaining 211 people. All the letters were the same as in the first mailing. Overall we had 3 people respond to the letters that were hand delivered or delivered by mail.

Activity 2 - Call those that have called the CDC

Method: It was realized early on that not all contracts for deed are recorded. To capture that population we called people that have talked with Jill looking for home improvement funds, but were not eligible because they were in contracts.

Activity 3 - Door knocking

Method: We chose a 6 block target area from Thomas to Edmund on both sides of Dale. We went to all of those houses that showed up as a contract for deed according to the PID book, excluding those that were included in the original mailing. This way we feel that we have done many different types of sampling and the data will be more representative.

Activity 4 - Interview Incoming calls

Method: Interview people with contracts for deed when they first contact the office for home improvement funds. We felt that talking with people when they called looking

for home improvement funds would save time and they might be more apt to talk about their situation in-depth since they are looking for funds.

Objective 5: To develop written education material to inform buyer

Educational material was developed with information gathered as a part of objective number one. The materials include definitions of what a contract for deed is, and how it differs from a mortgage. The educational materials also include the rights and responsibilities of a contract for deed buyer and a cost index for possible repairs.

Objective 6: To prove or disprove the folk knowledge that contract for deed churning is occurring in the neighborhood at the hand of several real estate companies and agents.

Method:

- 1) To identify patterns of ownership several names were looked up with the help of the county to see how many properties they own. It was determined that four people in particular owned more than one contract for deed in the Frogtown area. Twenty-eight are held by individuals that own more than one contract for deed property, reinforcing the idea that most of the properties are at the hands of few individuals.

- 2) The history of 13 properties were researched to determine if the property was changing hands rapidly. With all the 13 properties researched only one had a canceled contract and there was also no evidence of high turnover rates.

Methodological Challenges

Unwillingness to Talk

The most difficult challenge faced was the inability to talk to people who are or had been in a contract for deed situation. Several approaches were tried. First, a random sample all the contract for deed houses was taken and then individuals were sent letters and follow up phone calls. Most people no longer were at that residents. Indicating a move in the last year. The second step was to chose a target area and find out who was on contract for deed. This activity failed because most the owners were not there. Fliers were given out stating our project objects and our phone number.

Lack of Government Knowledge

Another difficulty was the lack of governmental knowledge of the contract for deed. When contacting the attorneys general office insisted that no one bought on contract for deed any more and they did not have any educational or legal information about them.

Cumbersome Computer System

The third obstacle is the cumbersome system at the county level for looking up contract for deeds. The computer system is extremely outdated and the transactions available through computer are those that have taken place since 1984. Each property has to be looked up individually and by legal description at the abstracters office and to make things more difficult there is no assistance given to individuals needing to look up documents. To make things even more difficult the documents are filed according to a transaction number, not under the property itself. So to look up the history of one particular property could take all day. However, there are abstracters and title companies that are willing to help individuals find the information they are looking for.

RESULTS

Specifics about Contract for Deed

Definition of Contract for Deed

In a contract for deed the seller finances the sale of the property to the buyer. The buyer makes payments to the seller rather than to a bank or mortgage company. After all of the payments are made by the buyer to the seller the title is acquired by the buyer. With a contract for deed the seller retains the legal title (legal right to the property) and is considered to have ownership interest in the property. The buyer has an equitable, but not a legal interest in the property being purchased under a contract for deed. This equitable interest gives the buyer the right of occupancy and the right to claim the property as homestead.

State Laws Regarding Contract for Deed

In the state of Minnesota there are no laws governing what is to be put in a contract for deed. As long as both parties agree to the terms, and both parties have signed and recorded the contract is legal and binding. In other states there is specific information that must be included and some of that information is used in the recommendations.

Local Laws Regarding Contract for Deed

At the city level there are some requirements for contract for deed. In St. Paul the potential purchaser must have been shown a truth in housing statement. In this form the specific areas are rated as hazardous, fine,

Individual Responsibilities in a Contract for Deed

Since there are few laws governing contract for deed the purchaser must take on responsibility themselves. The up-keep of the property is left up to the buyer even though they may be limited on the improvements they can perform. The buyer is also responsible for the taxes and insurance payments on the property. To insure they receive credit they should call the county to see if their contract is recorded, especially if they did not record it themselves.

Individual Interview Results

As a part of the research process individual interviews were held with people identified as contract for deed buyers through the Property Identification book as identified in objective two. Using the PID book 439 properties were identified as contract for deed properties out of 3693 (12%) properties in the Frogtown area. Out of 439 contract for deed properties that are recorded only 11 people who bought on contract for deed wanted to disclose any information. Keep in mind that several people that we tried to contact that had been through the cancellation process, however, could not be found. The individuals we spoke with have never had a contract canceled on them. Those who have experienced cancellation would probably tell a much different story. Individuals interviewed were asked questions about the conditions of their contract for deed, about the condition of their property, and about their feelings concerning contract for deed. All of the participants were asked the same questions and their answers then summarized.

Housing

On average the contract for deed buyers interviewed were in their house for 8.75 years with the range being from 6 months to 18 years. Before buying their house seven individuals were renting somewhere else, only one person rented the house that they later purchase.

Buying on contract for deed does not seem to be limited to those with a certain income. However, some said due to their economic status they did not feel they could qualify for a mortgage. Out of the individuals interviewed their income distribution fell in the following ranges.

- 3 - under \$15,000
- 2 - between \$15,000 - 19,999
- 2 - between \$20,000 - 24,999
- 1 - between \$50,000 - 54,999
- 2 - no answer
- 1 - unemployed

Details Included in Contract for Deed

The interviewees asked who drew up their contract for deed. Only one buyer drew the contract up their self with the aid of books of the library. Most of the contracts were drawn up by the seller's side. Three of the contracts were drawn up by the sellers themselves, two by the seller's realtor, and another two by the

seller's lawyer. Two buyers had input on their contract for deed using their own lawyer to cooperate with the seller. After the contract was drawn up and signed eight people received a copy of the contract they signed and two people did not.

Each of the contracts for deed had their own particular set of arrangements. Below are the results of the interviews. For each of the parts the average and the range is given to provide a better understanding of the situation.

Down payment

average = \$4,900

range = 0 to \$14,000

Purchase price

average purchase price = \$41,040

range = \$24,000 to \$63,000

(The \$63,000 house had two houses on it not including the lot with two houses on it the highest purchase price was \$48,000)

Interest rate (9 answered)

average = 9.64%

range = 7.5% to 18%.

Balloon Payment (10 answered)

6 no

4 yes

Time Before Balloon Due (One person did not remember because they refinanced their house before the end of the contract.)

5 years

11 years

1.5 years

Most of the interviewees felt that their monthly payments were affordable while only three thought that they really could not afford their monthly payment even though they agreed to the price in the contract for deed.

To determine the nature of the sales on contract for deed the interviewees were asked if they knew the seller before they decided to purchase the home. All but one had not

know their seller prior to the purchasing of the home. However, got to know them through the purchasing process.

Buyers were also asked about disclosure by the seller of the responsibilities they had toward the property under the contract for deed. All knew that they were responsible for their monthly payments and four people stated that they were aware of the only that particular responsibility. Only two people were told by the seller what other responsibilities they had such as property up-keep, insurance, taxes, and some repairs if approved by seller. Three other people educated themselves about the responsibilities that they had as a contract for deed buyer. Another person knew of the citations on the property but did not know that she would not be able to get funding for repair work because of the contract for deed and because of some zoning laws she cannot get a mortgage.

There are several reasons people chose to buy on contract for deed. Two of the interviewees had just moved to Minnesota and had no employment, but had some prospects. Another person wanted to fix up older house and found the house with a good structure, but could not get a mortgage because of outstanding citations. Still another had already bought the property on contract for deed and then the owner took off with their money leaving them feeling stuck so the bank sold to them again on contract for deed. Two people bought on contract for deed because that was the only way the seller wanted to finance. In one of the cases the seller wanted a 30-year contract for deed (with no balloon) in order to have a retirement income. However, three people chose a contract for deed because of the down payment situation. One person had no money down and the other two had a situation and amount the worked well for them. Three others did not feel that they could get a mortgage due to their income or credit situation.

Condition of the Property

Each of the interviewees was asked about the condition of their house when they purchased it. They had a rating scale with 1 being the lowest and 10 being the highest. One person did not answer but excluding them the average was 5.611. Out of all the people that we talked to 7 people bought single family homes and three bought duplexes.

The majority (seven) recalled being shown a truth in housing statement while four said they did not see one. However, two individuals qualified their statement by saying that

at the time that they bought their house the truth in housing statement was not required like it is today but could have been helpful.

At the same time seven felt that regardless of seeing a truth in housing statement they did not fully understand what the true condition of the house was or the extent of damages. One individual felt that although the truth in housing statement was inadequate that she understood the condition of the house because she bought the house to fix it up and was aware of the repair issues. Another person was present during the inspection process and asked a lot of questions to understand the condition. could not recall if any statements were made about the property

After moving into the house nine had made improvements with their own money along with their own money one property owner got funding from RAP for energy efficient furnace and another refinanced the contract for deed. One person did not make improvements before refinancing because their contract would not allow them to. Six people stated that they have wanted to do other improvements but could not because they did not have the funds. Four others said that there were no other improvements that they would like to make.

One of the final questions inquired as to the whether these individuals would have still bought on contract for deed knowing everything that they know now. Seven said yes but qualified it by saying that they would have a lawyer help them out. They also said they would hire their own inspector to disclose all problems in the property. Other stated that they would get an appraisal because they felt they paid more than what the property is worth. Three stated that they would have tried to get a mortgage first before entering into the contract for deed.

None currently own any other properties. However, one person had such a good experience with contract for deed that he intends 5 buy more properties on contract for deed for investment opportunities.

From the few people that we talked to there are trends that seem to be developing. The most common and the most difficult is the ability to make improvements to the property. Many contracts do not allow for any sort of improvements to the property. However, if people are able to make improvements they are often minimal because they are paid for completely by the buyer. Since the buyer does not have title to the property

they are not eligible for home improvement loans, leaving the option of no improvements, minimal improvements or waiting to refinance. The other most common comment was about disclosure about the condition of the house at the time of purchase.

Focus Groups

Sellers

The sellers focus group provided an entirely new perspective on contract for deed, especially since those participating represented the different levels of buying and selling. As a result we gained valuable insight into the perspective of the seller

Advantages

When the sellers were asked what advantages they perceive in using contract for deed over mortgage they answered that there is no appraisal needed and generally the property can be sold for a higher price. They also said that the taxes are lower when you sell contract for deed. Closing the deal does not take as long and closing costs less than if the property were sold on a mortgage. The period of time for cancellation was also mentioned, in a contract for deed cancellation only takes 60 days. The sellers all agreed that with contract for deed the house does not have to be as up to date as it would be for a mortgage allowing them to sell properties that would normally not be saleable.

They also felt that there are also advantages for the buyer. With contract for deed a buyer can who cannot qualify for a mortgage can still buy a home quickly with low down payment, no credit approval, and no closing costs.

Risks

There are real risks along with the advantages of contract for deed. According to the group the greatest risk is losing control of the property and having the property go into disrepair or condemnation. If the property starts deteriorating a city inspector may give out a citations and the seller as well as the buyer is responsible for fixing the citation. The seller has the option of canceling the contract for deed if a citation is given. However, the group said that the expense of going through the cancellation process forces them to choose other options. One way to avoid cancellation would be to fix the problem and charge the buyer for it, if the buyers did not remedy the problem their self. Another way to cure a citation would be to for the seller to sign off on a loan. Few of the participants said that they would use this option because they would be stuck with the debt if the buyer defaulted. One of the focus group members had to repay a \$10,000

loan that his contract for deed buyer took out and he signed off on because she died before the loan was repaid. He commented that although this is not a usually circumstance he would not sign off on another loan again.

Insurance

Another issue that came up in casual conversation with buyers was the insurance and taxes. Several only knew that they paid their seller and that they did not receive anything. The question was then posed to the sellers about how the insurance and taxes are normally handled. According to the sellers if they (the seller) are responsible for paying the insurance and taxes then the buyer pays 1/12 and then they pay insurance but in their name. If the terms of the contract leave the buyer responsible then they must show proof of one year paid insurance.

Recommendations

The group was asked about recommendations they would make to contract for deed buyers. One person in the group mentioned that selling on contract for deed is in some ways it is glorified rent because I still have to monitor what is going on. The recommendation made in reference to this comment was to have the buyer understand what they are responsible for, including an understanding of what needs to be done to keep-up a property and repairs. They suggested making educational material available to them so that they can learn about their rights and responsibilities before purchasing leading to pride in ownership. One participant went on to say that there should be an office people can go for legal advice and educational material. A final comment made by one of the participants is that contract for deed buyers should look at a contract for deed as short-term financing. The end should be to get a mortgage if they cannot get one now due to credit problems.

They also had recommendations to sellers. One recommendation to have a credit report and a criminal background check done to insure that you found good buyers. Going on further to say to get a good down payment, about 10%, which would also indicator a buyers intention to stay.

Community Development Agencies Focus Group

This focus group was comprised of individuals from different neighborhood organizations in St. Paul and Minneapolis. During the focus group the participants were asked to discuss the state of contract for deed housing in the neighborhoods

where they work, and what if anything they have done to improve the success rate of contracts for deed.

None of the groups that we talked to had developed any programs or materials to increase the success rate of contracts for deed. One neighborhood group represented stated that there are virtually no contracts for deed in the neighborhood where he works, because people have been able to get mortgages. Another participant said that their organization is thinking about selling new houses on contract for deed to residents in the neighborhood, because that is the only way that some residents could ever own a home.

The group also discussed advantages and disadvantages for both the buyer and seller. Several of the organization realized that contracts for deed could be a problem if the buyer did not know the responsibilities and limitations they have as a contract for deed buyer. The stories that they have heard are similar to ones told to us by buyers we spoke with. Suggestions were made to change state and local laws to better protect buyers by giving them more bargaining power.

Other States Handling of Contracts for Deed

With the help of Andy Dawkins office, thirteen states had information in there state statutes pertaining to contract for deed. All thirteen allowed for contracts for deed to take place. However, with the material received only Maine, Maryland and Colorado had clear provisions for contract for deed some of which are used in the recommendations. These states had outlined the information to be included in the contract and the process of recording. The information from the rest of the states focused exclusively on the foreclosure process.

Insurance

While doing research one area that came to our attention was insurance. Several people commented that they did not know anything about the insurance. They just knew that they paid for part of it every month with their monthly payment. In general the insurance for the house covers the house and the personal property inside. The contract for deed buyer should purchase the insurance so their names are on the policy. If the contract for deed buyer does not have their name on the policy it does not mean that they will not get paid, however, it makes the situation much more difficult. Keeping the policies under the holders name may be done because the holder may not trust the

contract for deed buyer to pay the insurance. By keeping the policy in the seller's name the policy is sure to get paid and the house is covered.

How realtors and companies are buying before foreclosure

Early on in the research it was discovered that individuals and companies are buying properties before foreclosure. To find out more about how this type of purchasing is taking place a person once in banking agreed to talk with us.

According to this individual the people buying properties before foreclosure are well connected and if a bank has a house that is in the process of foreclosure then the bank might call the individual to see if they are looking for any properties or the individual will call the bank every week to find out what properties they have. The potential buyer will make an offer, for example \$25,000, to buy the mortgage on the property being foreclosed upon. The bank may accept the offer even if they are taking a loss, because if the bank cannot sell the property the bank loses even more. If the house is such a state of disrepair and cannot be mortgaged the bank would rather just get rid of it. This explanation was also backed up by several sellers who have bought properties before foreclosure.

According to our interviewee and some of the sellers in our focus group. The bank and Veterans Administration may sell homes to individuals on contract for deed if they do not think they are mortgagable. Both the VA and banks often get more for the house when they sell it on contract for deed because they don't have to do all the improvements to make it habitable.

RECOMMENDATIONS

Several recommendations are being made to the Board of Directors of the Greater Frogtown Community Development Corporation by the Advisory Board of this project.

Individual Level

There are several steps a potential contract for deed buyer can take to prevent being taken advantage of or any misunderstandings. Many of the recommendations appear under what the individuals responsibilities in the results section. However, they are followed up in this section because the buyer is often not aware of the responsibilities. These recommendations are made to help buyers fulfill their responsibilities and be smart about their purchase.

First, be aware of what the condition of the house. Before buying research the property, the city can provide citation information about the condition of the house or call the St. Paul Health Department. If there are citations the buyer may want to have the current owner fix everything before signing to avoid costly repairs. If there are not any citations currently have a housing inspector examine the safety of the home for possible hazards. If they cannot afford an inspector they can talk with the last tenant to find out what difficulties they had with the house.

Following an inspection the buyer should get to know the value of the house. Often buyers claim that they paid more than the house was worth and refinancing may be impossible when the balloon payment comes due. Appraisals cost on average about \$300, but will give the buyer negotiating power when agreeing on a sales price. The buyer should also take into account the cost of the work that they intend to do to the house when negotiating a sales price.

The third recommendation to buyers is to have a lawyer look at the contract before they sign. The buyer should be aware of what provisions have been made to the uniform contract for deed and read the contract carefully, checking for balloon payments or unexpected costs. The buyer needs to remember that they can negotiate the terms of the contract until they feel comfortable with what they are signing.

Fourth, after signing the contract the buyer needs to check to make sure they get insurance in their name to protect the house and all the buyers belongings. Many

times the buyer may pay the seller for part of the insurance and part of the taxes. We suggest the buyer finding their own insurance, because then they will know the extent and coverage of the insurance and will have the ability to get a low price.

Finally, the buyer needs to make certain the contract is filed at the city, if they have not done so their self. Buyers often do not realize that if the contract is not recorded than it does not exist and they do not have any rights to the property. With three steps the buyer can record their contract and start earning equity.

To record a contract for deed follow these steps:

1. Get the required stamp from the tax department stating that there are no delinquent taxes.
2. Make sure to state on the form if there are or are not any water wells on the property. If there are water wells on the property the form must have a certification stamp saying that they city is aware of the wells on the property.
3. Go to the county Abstractor's Office and fill out the required form there. Make sure that the information is filled out completely so that the you get the credit for paying the taxes.

One final step after the contract has been fulfilled is to have a title search done. The title search may cost \$75 but in the will let them know if any liens or other difficulties stand in the way of getting clear title to the property.

Local level

Appraisals

Since several of the individuals that we spoke with stated that they felt that they paid too much for the house. The first recommendation is to require an appraisal to be done before the house is purchases. Having an appraisal done will give the buyer will be insured that two ways:

- ¥ that the individual is only paying what the house is worth.
- ¥ the balance due on the house at the time the balloon payment comes due is not more than the value of the house, making the house unmortgagable.

Inspections

The second recommendation to be done at the city level is to change the citation/inspection system to better fit contracts for deed. According to the individuals interviewed the inability to qualify for home improvement loans is the number one disappointment that they had with contracts for deed. Obtaining funds for improvement becomes most important when a contract buyer receives a notification or citation from the city and cannot cure the problem since they can not obtain funds. To better understand the process a housing inspector for the city of St. Paul explained steps used in the inspection process of houses and they are as follows.

Steps:

1. Do a survey of an area or go out on a call
2. Do an outside inspection of the house operating under Chapter 34 - property maintenance and 45 nuisance. To get on the inside an inspector must be invited in or a search warrant must be given. They don't like search warrants unless they are confident that there are problems, because they (housing inspectors) will have to condemn the house if the door is kicked in.
3. If a violation is found then a notice is given
4. If a notice is not remedied then a citation is given
5. If a citation is given then the residents must go to housing court
6. If residents show that they are trying to remedy a problem then inspector will ask the court referee to give them time to remedy the problems.
7. If the residents don't show that they are trying to fix a problem then the housing court may impose strict fines or penalties and give them a shorter time to fix the problem.
8. Anyone can remedy a problem.
9. If a problem is not fixed then the house may be condemned and all parties with interest in the house are contacted. The house remains condemned until the problems are remedied.

They check for :

- ¥ peeling paint that may result in rotting of the house
- ¥ junk, garbage in the yard,
- ¥ lack of lawn coverage
- ¥ lack of lawn care
- ¥ lack of water, electricity,
- ¥ sanitation - appropriate plumbing standards, owner may need to call plumber for proper inspection.
- ¥ unsanitary; dirty houses.

When a citation is present it is up to the individual inspectors to decide who gets the fine. Traditionally they give the notice to the contract for deed buyer, but their goal is to hold both parties responsible. One housing inspectors said that inspectors do not understand the full extent of the limitations put on contract for deed buyers, they just want the house up to standard.

With the given information about the inspection process the following ideas were presented to change the burden of curing a citation.

1) change the definition of ownership and define contract for deed owner more specifically.

currently the city code 34.07 defines owner as:

Owner or owners of the freehold of the premises or lesser estate therein, holder of an unrecorded contract for deed, a mortgage or vendee in possession , assignee of rents, receiver, executor, trustee, lessee, other person, firm or corporation in control of a building.

2) Write an entirely new amendment stating specifically the responsibilities of the contract holder and buyer when it comes to notices and citations. The division of responsibility can be based on time the buyer has been in the house or on interest the buyer has in the property.

The third recommendation is to have current citations and notifications show up on the truth in housing statement. Truth in housing statements are required in the city of St. Paul for all housing sales but currently they do not disclose citations or notifications. By having that information shown clearly on the statement the potential buyer will be aware of the work that will need to be done immediately if they chose to buy the house.

The last recommendation is a change in the city statute for the current owner to bring the house up to code before the house can be sold. This type of law has been tried in other cities and soon may be passed in Minneapolis. The draft for the city of Minneapolis statute calls for sellers would be responsible for:

smoke detectors

electrical: damaged or deteriorated equipment, improper wiring: exposed or uninsulated wiring and the system must be grounded.

plumbing : to leaks, operating toilet and bathing facilities and no connection between water supply and sewer.

heating : no rusty heat exchangers or flues, no plugged or burned out flues or improper vents

structural walls, chimneys, ceilings, roofs, foundations, floor systems and decks all must be capable of carrying imposed loads and all broken glass must be replaced. Sanitary conditions: House must be free of unsanitary refuse, garbage, animal or human waste, decaying vermin, dead animals and vermin infestation. No disorganized storage of large amounts of newspaper, clothing or other material. **utilities**: Required utilities must be present- no unsafe gas piping.

If this type of statute were passed in St. Paul then there would be no need to change the inspection system. Inspectors would know that the buyer is fully responsible for any other citations that occurred after the sale. Passing this statute would also lead to a better housing stock in Frogtown.

State Guidelines for Contract for Deed

A recommendation for change at the state level is to include certain information in every contract for deed. These recommendations are based on similar guidelines found in Maryland and Maine. State standards were supported by Andy Dawkins the District 7 Representative. Below is an example of what state standards would be recommended.

- A) All contracts for deed should include the following information:
1. the full name, place of residence and post-office address of every party to the contract
 2. The date when signed by the purchaser
 3. A legal description of the property covered by the contract;
 4. A disclosure, with respect to the six-month period prior to the date of the purchase, of every transfer of title to the property, the sale price of each transfer, and the substantiated cost to the vendor of repairs or improvement;
 5. A provision that the vendee has the right to accelerate any installment payment;
 6. Provisions stating clearly (i.) any collateral security taken for the purchaser's obligation under the contract, and (ii.) whether or not the vendor has received any written notice from any public agency requiring any repairs or improvements to be made to the property described in the contract;
 - 7) the following notice in 12 point bold type or larger, typewritten or handwritten legibly directly above the space reserved in the contract for the signature of the purchaser:

Notice to Purchaser

You are entitled to a copy of this contract at the time you sign it;

8) the following notice, in 12-point bold type or larger, typewritten or hand written legibly, directly below the space reserved in the contract for the signature of the purchaser acknowledging the receipt of a copy of the contract:

In the event of default, the purchaser may be liable to a default judgment.

B) contents of contract listed in tabular form

- 1) the cash price of the property sold
- 2) Any charge or fee for any service which is included in the contract separate form the cash price;
- 3) The cost to the purchaser of any insurance coverage form the date of the contract, for the payment of which credit is to be extended to the purchaser, the amount or extent and expiration date of the coverage, a concise description of the type of coverage, and every party to whom the insurance is payable;
- 4) The sum of items
- 5) the amount of any down payment of behalf of the purchaser
- 6) the principal balance owed, which is the sum o f item 4 lies item 5
- 7) the amount and time of each installment payment and the total number of periodic installments
- 8) The interest on the unpaid balance not exceeding the percentage per annum allowed by the Commercial Law Article.
- 9) Any ground rent, taxes, and other public charges

C) Application of Payments The installment payments first shall be applied by the vendor to the payment of:

- 1) Taxes, assessments, and other public charges levied or assessed against the property and paid by the vendor
- 2) Any amount rent paid by the vendor;
- 3) Insurance premium on the property paid by the vendor;
- 4) Interest on unpaid balance owed by the purchaser at a rate not exceeding the percentage per annum allowed by the Commercial Law Article
- 5) Principal balance owed by the purchaser

D) Amount of mortgage and payments when land is sold. No vendor may place or hold any mortgage on any property sold under a land installment contract in any amount greater than the balance due under the contract, nor may any mortgage require payments in excess of the periodic payments required under the contract.

E) With in 20 days after the contract has been signed by both the vendor and the purchaser, the vendor shall cause a copy of the contract to be recorded at the

purchaser's expense in the registry of deed in the county where the property sold under the contract is located. Such notice shall not operate to convey title.

F) Buyer shall have the option of voiding a contract for deed to real property which fails to record a contract for deed. The buyer shall be entitled to the return of all payments made on the contract, with statutory interest and reasonable attorney fees and costs. The avoidance right shall expire on the date seen years at the latest execution date of the contract for deed to real property unless exercised prior to such date.

A second recommendation is to establish a program where home improvement funds would be available to those buying on contract for deed. Such a fund would prevent housing from deteriorating past the point of repair and consequently torn down.

Also recommended is state support of appraisals and inspection standards for each contract for deed property before they are sold, as outlined under the local level recommendations.

Summary

According to the information that was uncovered it seems that being in a contract for deed inherently is not a bad thing. People both buying and selling properties on contract do not dispute the fact that there is potential for buyers to be taken advantage of. However, seven of the contract for deed buyers said they would buy on contract for deed again, but they would have their own inspections done and hire their own lawyers to negotiate with them. By adopting one or a few of the recommendations proposed the ability for buyers to be taken advantage of will be decreased, furthering the success rate for contracts for deed. The greater success rate of contract for deed the healthier the housing stock for Frogtown.

Appendix 1

Name

code #

Address

1. Do you own or rent your house?

own rent

If own :

1 a. How did you purchase your home?

traditional mortgage contract for deed (rent to own) other

1b. When did you purchase your home?

month _____ year _____

If rent:

1c. Have you ever been offered to buy on contract for deed (rent to own)?

yes no

2. How long have you lived in your house?

number of years _____ number of months _____

3. What was your housing situation before?

homeless renting here renting somewhere else
own (traditional mortgage) own (contract for deed)

4. What do you consider to be the condition of your house?

1 being the lowest and 10 being the highest.

1 2 3 4 5 6 7 8 9 10

5. Number of Units

single family duplex

6. Ethnicity

African American Hmong Vietnamese Chinese Korean
Latin American Native American European American other

7. Is there any other information you would like to share?

Part B. Is for Contract for Deed buyers only. These questions are voluntary and are of a more personal nature, but are an integral part to our research.

Structure of Contract for Deed

8. Who drew up your contract?

The owner A realtor A lawyer yourself other (specify)

9. Did you receive a copy of the signed contract? yes no

10. What were you told your obligations would be as a contract for deed buyer?

11. What was the purchase price?

12. Interest Rate?

13. What was your down payment?

14. Do you have a balloon payment? yes no

When is the Balloon payment due? month _____ year _____

15. What is the one main reason you chose to buy on contract for deed?

16. Who holds the contract?

17. Do you know the contract holder?

Standard of Living

18. What is the range of your combine household income?

under \$15,000

between \$15,000 - 19,999

between \$25,000 - 29,999

between \$35,000 - 39,999

between \$50,000 - 54,999

between \$60,000 - 64,999

between \$20,000 - 24,999

between \$30,000 - 34,999

between \$40,000 - 49,999

between \$55,000 - 60,000

over \$65,000

19. How many family members live with you (including yourself)?

0 1 2 3 4 5 6 7 8 9 10

20. Do you feel your monthly payment is affordable? yes no

Condition of the Property

21. Were you shown a truth in housing statement? yes no

22. Were any statements made about the condition of the property?
23. Have you been able to make improvements? If yes how?
24. Have you wanted to remedy a problem with your home and have not been able to? If yes, what?
25. Knowing what you know now would you still have bought on contract for deed?
26. Do you own any other properties? yes no

Appendix 2

CD Seller Focus Group Questions

- What do you see as the advantages of contract for deed for the seller?
- What do you see the advantages of contract for deed for the buyer?
- What do you see as the risks for the seller?
- What do you see as the risks of contract for deed for buyer?
- Why did you decide to sell on contract for deed rather than renting or mortgaging?
- How many properties have you bought on contract for deed?
- How many properties have you sold on contract for deed?
- Would you choose to buy/sell on contract for deed again?
- Generally who writes your contract?
- What other changes would you like to see made in regards to CDs?
- Generally do you make improvements to the property before you move in?
- How do you find properties?
- How do you find your buyers? (ex. renters, advertising, word of mouth)
- What kinds of background information do you require before ownership?
- In what circumstances would you deny someone ownership?
- What types of contracts do you utilize most? (ex. balloon payment)
- When would you cancel a contract?
- What do you feel your role is as title holder to the property?

Appendix 3

Contract for Deed Community Organization Focus Group Questions

1. What has your experience been with contracts for deed in your area?
2. Do you know what percent of the people are in contracts for deed in your area?
3. What would you like to know more about the legalities of contract for deed?
4. What is the impact of contracts for deed in your neighborhood? (ex. housing stock, property value)
5. What do you see as the advantages of contract for deed for the seller?
6. What do you see the advantages of contract for deed for the buyer?
7. What do you see as the risks for the seller?
8. What do you see as the risks of contract for deed for buyer?
9. What recommendations would you make to potential contract for deed buyers?
10. As a community-based organization what do you feel you should be done to improve contract for deed housing?
11. What other recommendations would you make? (community level, city level, state level)

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