



The Office of  
**Minnesota Attorney General Keith Ellison**  
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March 18, 2024

The Honorable Ron Latz  
Chair, Judiciary and Public Safety  
Committee  
3105 Minnesota Senate Building  
St. Paul, MN 55155-1298

The Honorable Warren Limmer, Ranking  
Minority Leader, Judiciary and Public Safety  
Committee  
2221 Minnesota Senate Building  
St. Paul, MN 55155-1298

**Re: Senate File 3489**

Dear Senator Latz, Senator Limmer, and committee members:

Pursuant to my duty under section 8.32 of the Minnesota Statutes to recommend statutory changes to protect consumers, I write in strong support of Senate File 3489. This legislation will protect Minnesota consumers from predatory contracts for deed and I strongly encourage the committee to advance it.

Contracts for deed are a centuries-old form of seller-financing that allow consumers without the means to obtain traditional lending to still purchase real estate. The transactions are risky to both sides. Purchasers run the risk of forfeiting the entire property, along with whatever equity and improvements have been made, with a single missed payment. Sellers risk selling property to customers with poor credit history and marginal or atypical income.

Thus far, Minnesota has minimally regulated contract for deeds, aside from sparse disclosure requirements that apply to multiple sellers. The lack of regulation, paired with a product designed to service the periphery of our community, has led to a landscape rife with abuse. Each year my Office receives many complaints about predatory loans involving contracts for deed. Sophisticated sellers have contracted all of the risks onto less experienced buyers. High downpayments combined with inflated purchase prices put the homes immediately underwater (as opposed to a traditional loan where 20% down would give you immediate equity to tap into). The use of balloon payments (sometimes annual balloons) and high interest rates (sometimes 100% of the payment goes towards interest) ensures that these contracts result in the buyer defaulting. A windfall for the seller. Investor sellers have capitalized on this market and commenced a practice of using contracts for deed as a vehicle to churn properties. Taking the life savings of families as down payments on the home with unsustainable payments results in a swift cancellation of the contract for deed, given that homeowners have neither the rights of tenants nor the protection of foreclosure law. Repeating this cancellation process is more profitable for a seller than the contract actually being performed.



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The legislation proposed to this committee aims to rebalance some of the risks of these transactions to both buyers *and* sellers in three meaningful ways. In addition to more clear and meaningful disclosures, the practice of churning is defined and prohibited. There is no need for investors to amass land wealth on the dime of destitute consumers. Second, the bill would briefly extend the short cancellation window for these contracts from 60-days to 90-days. This slight extension will minimally assist defaulted buyers in getting caught up before a complete forfeiture of their home. Yet, a 30-day extension cannot be said to chill the use of contracts for deed in lieu of foreclosures, which still take upwards of a year in comparison. Lastly, the bill aims to curtail the use of high down payments being forfeited to investors and to treat the home as something that can garner equity for the purchaser. The bill does not limit down payments at all, but rather forces investor sellers to return any portion of a down payment that exceeds 10% when there is a cancellation in the first four years of the transaction. This protection disincentivizes churning and encourages sellers to make deals that look destined to succeed and the seller can perform. Too often in Minnesota have family's life savings been swindled by an investor making a loan to someone with no income, job, credit, or ability to pay the debt.

My office has seen contracts for deed heavily targeted to poor and minority communities. These vulnerable populations often don't have the means to pay a lawyer to review the documents or the wherewithal to negotiate an inspection of the home before the purchase. For many purchasers, English is a second language and they enter predatory transactions based on trust of professional sellers or other less scrupulous members of their community. Religious principles also play a role in homebuyers feeling pressured into avoiding traditional loans and seeking options that are catered as "interest-free" and adherent to their faith, whether or not they actually are.

Given the external factors that weigh upon these transactions in favor of sellers, it is imperative that the legislature step in to balance the scales. Thank you for allowing me to provide my recommendations with respect to this bill. If you have any questions or would like additional information, my team and I would be happy to help in any way that we can.

Sincerely,

KEITH ELLISON  
Attorney General