

LAND CONTRACT

101

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SO YOU'RE THINKING OF BUYING A HOUSE IN DETROIT USING A LAND CONTRACT. THIS GUIDE WILL HELP YOU SPOT MAJOR RED FLAGS AND NAVIGATE THE DO'S AND THE DON'TS.

WHAT EXACTLY IS A LAND CONTRACT, AND WHY BUY A HOUSE WITH ONE?

A land contract is a way to buy property that allows a buyer to pay the seller over an agreed amount of time.

Essentially a “seller-financed” mortgage, land contracts were most popular in America between the 1930s and 1960s, particularly in Black communities where redlining kept bank mortgages from Black potential homebuyers. Land contracts are still used if people want to buy a home but can't qualify for a traditional loan because of income, credit issues or low property values.

In a land contract, the seller holds the deed (meaning they own the home) until the buyer makes enough payments. The buyer is still usually responsible for property taxes and upkeep of the home while making those payments. But, they are also *not* a tenant and can't be evicted.

A LAND CONTRACT SOUNDS LIKE A GREAT TOOL FOR SOMEONE STRUGGLING TO GET A TRADITIONAL LOAN. WHAT EXACTLY IS THE ISSUE?

Predatory sellers can easily manipulate land contracts. Some sellers in Detroit take advantage of the fact that land contracts *don't* have a bank, title company or real estate agent reviewing the purchase.

But not to worry. This guide will help you figure out what you should look out for so you can avoid scams and sign a fair contract.

IS RENT-TO-OWN OR LEASE-TO-OWN A LAND CONTRACT?

No. Some buyers or sellers say a rent-to-own or lease-to-own deal is a land contract. Those agreements typically treat the buyer as a tenant and do not have the extra legal protection of a land contract. It is important to know if the agreement you have is a true land contract. Read below for language found in a *real* land contract.

OUTLIER

MEDIA

THE BASIC INFORMATION THAT SHOULD BE LISTED IN A GOOD LAND CONTRACT

- 1** **The address.** This should include the property address and the correct legal description of the property's lot and block number.
- 2** **The seller's name.** If this is a company, the person who signed should have the authority to do so. Check Michigan's [LARA business entity database](#) to confirm the signer is a registered agent of a company.
- 3** **The buyer's name.** This can include more than one name.
- 4** **Confirmation of title.** The document should spell out that the buyer gets an "equitable title" and will get a general warranty deed after all payments are made. That deed needs to be signed over by the seller to the buyer and filed with the Register of Deeds.
- 5** **Space for a notary to sign.**

WHAT TO GET IN WRITING

- 1** **Purchase price.** What is the total amount the buyer must pay before they can get the deed?
- 2** **Payments and length of a contract.** Get all the expected costs in writing. What are the monthly payments and how many payments are needed to hit the purchase price? Is a down payment required? What about a "balloon payment" (which is a large extra final payment)?
- 3** **Interest rates.** Some land contracts have monthly interest rates. Interest rates are added on top of monthly payments and cannot exceed 11% in Michigan. In 2021, the average interest rate was 2.96% for a 30-year fixed-rate traditional mortgage in the state.
- 4** **Final total price.** If the sale comes with interest, the total amount you pay will be *more* than the purchase price. Make sure you know and understand what the final total price will be.
- 5** **Who is responsible for upkeep, property taxes and utilities?** Normally, the buyer is responsible for these costs, but get it in writing. Before signing anything, find out if there are outstanding property taxes or utility bills. (More on how to do that in the Homework section of this guide.)
- 6** **Home Insurance.** Many land contracts require the buyer or seller to have home insurance. The party responsible for paying the insurance should be in the contract.
- 7** **Forfeiture.** The forfeiture clause explains how a buyer could default on the contract. Read this carefully. Some land contracts have an "Acceleration Clause" that requires the buyer to pay the full balance owed immediately if they default — be aware if your land contract has this.

SPEAKING OF THE FORFEITURE CLAUSE, NOW IS A GOOD TIME TO REMEMBER YOU — A LAND CONTRACT BUYER — ARE NOT A TENANT OR A RENTER! WHY DOES THIS MATTER?

Tenants can be evicted. Land contract buyers cannot. If a buyer falls behind on payments and the seller wants to void the land contract, they have to file a forfeiture action. Those come with more protections than an eviction notice.

Michigan tenants get one week's notice before an eviction can be filed with the courts. A land contract forfeiture requires two weeks. In an eviction case, the tenant has 10 days to pay what they owe. A land contract forfeiture action gives a buyer 90 days, or 180 days if 50% of the purchase price has already been paid by the time the case goes to court.



*IF 50 PERCENT OF THE PURCHASE HAS ALREADY BEEN PAID

HOMEWORK! FOLLOW THESE STEPS BEFORE SIGNING ANYTHING.

- 👁️ Does the seller really own the property? Check the [Wayne County Register of Deeds](#). You can do a free online search by seller name, or pay \$6 to search by address. If the seller is a company, ask for proof the person is a representative of the company.
- 👁️ Call the Detroit Land Bank Authority at 313-964-6869 to confirm the house is not in their inventory. DLBA homes are often targeted for use in land contract scams.
- 👁️ Does the property have taxes due? [Check online](#) with the [Detroit's Office of the Treasury](#).
- 👁️ Are there past due utility bills? Call the Detroit Water & Sewerage Department (313-267-8000) and DTE (800-477-4747) and say you are a buyer checking on past due bills.
- 👁️ What repairs are needed? Have a professional inspector walk through the property because you are responsible for repairs. An inspection costs a few hundred dollars.
- 👁️ Is the price fair? Look online at the [Wayne County Register of Deeds](#) to see what the seller bought the house for. You can also use sites like Zillow to get a free estimate of how much the house is worth.

THE REAL (DO NOT SIGN) RED FLAGS

Here is language that makes the agreement a rental agreement — not a land contract: tenant, landlord, eviction, rent-to-own, lease-to-own, lessee, lessor, and no equitable title. These agreements might be called land contracts, but they are rental agreements.

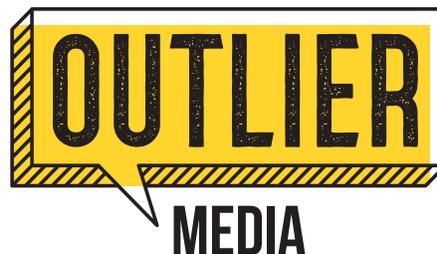
SOME SELLERS WHO HAVE BEEN SUED FOR DECEPTIVE PRACTICES IN LAND CONTRACTS:

- 👁️ Detroit Leasing, Inc.
- 👁️ Real TC LLC
- 👁️ Detroit Property Exchange Company
- 👁️ Latino Housing Coalition
- 👁️ Party City LC
- 👁️ Woodlawn Properties Inc
- 👁️ Chase Loan Services
- 👁️ Belmont Properties of Michigan
- 👁️ Detroit, MI LLC
- 👁️ Devonshire Hills LLC
- 👁️ Dobel Prize
- 👁️ Frenchy Sirois LLC
- 👁️ Gerard Brothers LLC
- 👁️ Montlieu LC

AFTER YOU SIGN SHOULD YOU DO ANYTHING? YES!

- 👁️ Fill out appropriate property tax forms if you are responsible for property taxes.
- 👁️ Get on a payment plan if the property has delinquent taxes you are responsible for.
- 👁️ Record the land contract with the Wayne County Register of Deeds so you have a paper trail. The fee to record a real estate document is \$15 for the first page and \$3 for each additional page or side. Learn more on how to do so [here](#), or call 313-224-5851.

Information in this guide was, in part, sourced from a draft version of the "Land Contract Buyer Guide," to be published by City of Detroit, Enterprise Community Partners and University of Michigan Poverty Solutions in June 2022.



IF YOU NEED TO TALK TO A REPORTER, TEXT "DETROIT" TO 67485