A bill for an act

relating to real property; clarifying eviction provisions; modifying provisions governing contracts for deed; regulating residential leases with an option to purchase; amending Minnesota Statutes 2008, sections 504B.285, subdivision 1; 507.235, by adding a subdivision; proposing coding for new law in Minnesota Statutes, chapter 559.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2008, section 504B.285, subdivision 1, is amended to read:

Subdivision 1. **Grounds.** The person entitled to the premises may recover possession by eviction when:

(1) any person holds over real property:

(i) after a sale of the property on an execution or judgment; or

(ii) after the expiration of the time for redemption on foreclosure of a mortgage, or after termination of contract to convey the property, provided that if the person holding the real property after the expiration of the time for redemption or termination was a tenant during the redemption or termination period~~, the person entered into the~~ under a lease of any duration and the lease began after the date ~~of~~ the ~~notice of~~ mortgage ~~foreclosure~~ or contract for deed ~~cancellation and~~ was executed but prior to the expiration of the time for redemption or termination, and the person has received:

(A) at least two months' written notice to vacate no sooner than one month after the expiration of the time for redemption or termination, provided that the tenant pays the rent and abides by all terms of the lease; or

(B) at least two months' written notice to vacate no later than the date of the expiration of the time for redemption or termination, which notice shall also state that the sender will hold the tenant harmless for breaching the lease by vacating the premises if the mortgage is redeemed or the contract is reinstated;

(2) any person holds over real property after termination of the time for which it is demised or leased to that person or to the persons under whom that person holds possession, contrary to the conditions or covenants of the lease or agreement under which that person holds, or after any rent becomes due according to the terms of such lease or agreement; or

(3) any tenant at will holds over after the termination of the tenancy by notice to quit.

Sec. 2. Minnesota Statutes 2008, section 507.235, is amended by adding a subdivision to read:

Subd. 1a. **Requirements of vendor.** (a) A vendor entering into a contract for deed involving residential real property must, contemporaneously with the execution of the contract for deed:

(1) deliver to the vendee a copy of the contract for deed containing original signatures in recordable form; and

(2) pay, or reimburse the vendee for payment of, any delinquent taxes necessary for recordation of the contract for deed.

(b) For the purposes of this subdivision:

(1) "contract for deed" has the meaning given in section 559.202, subdivision 2; and

(2) "residential real property" has the meaning given in section 559.202, subdivision 2.

Sec. 3. **[559.203] RESIDENTIAL LEASE WITH OPTION TO PURCHASE AGREEMENTS.**

Subd. 1. **Scope.** This section only applies to transactions between landlords and renters involving rental residential real property with an option to purchase by the renter.

Subd. 2. **Definitions.** (a) For purposes of this section, the following terms have the meanings given.

(b) "Landlord" means the person who leases the property and who grants the right to purchase the property to the renter.

(c) "Lease with option to purchase agreement" means a transaction between a landlord and renter in which the renter acquires a possessory interest in the property and, for valuable consideration, obtains the right to acquire a fee interest in the property at a future time, and includes both the lease and the option, whether in one or more agreements.

(d) "Option agreement" means a contract, separate from the lease, that provides the renter with an option to purchase and contains the terms under which the option may be exercised.

(e) "Renter" means the person making lease payments on the residential real property and to whom the option to purchase is granted.

(f) "Residential real property" means property intended and used principally for the occupancy of one or two families, if the renter intends to occupy the real property.

Subd. 3. **Written option agreement required.** An option agreement must be in a writing separate from the lease and contain, at a minimum, the following:

(1) legal description of the property subject to the option;

(2) purchase price and any limitations on the exercise of the option to purchase;

(3) conditions under which the option may be exercised;

(4) amount and schedule of payments and the percentage or amount of each payment that will be dedicated to rent payments and the option payment;

(5) whether and to what extent rent or option payments will be credited toward any downpayment on the property;

(6) purchase price of the property or how the purchase price of the property will be determined;

(7) any preexisting mortgage, lien, or other encumbrance on the land or title;

(8) whether or not the conveyance, transfer, or assignment of the renter's option is permitted and if prior notice to the landlord is required;

(9) whether or not the option agreement contemplates the assumption by the renter of a preexisting mortgage; and

(10) that the landlord is obligated to remain current on payments of property taxes and building casualty insurance, unless these obligations are delegated to and accepted by the renter.

Subd. 4. **Definitions; legal interests, rights, and obligations of parties.** (a) A landlord in a lease with option to purchase agreement is a landlord, as that term is defined under section 504B.001, subdivision 7, and a renter in a lease with option to purchase agreement is a residential tenant, as that term is defined in section 504B.001, subdivision 12.

(b) The execution of a lease with an option to purchase agreement does not affect or impair the rights conferred, obligations or duties imposed, or remedies available under chapter 504B.

(c) In a lease with an option to purchase agreement, until the renter exercises the option and completes the purchase:

(1) the landlord retains title; and

(2) the renter has no interest other than a possessory interest as a leaseholder with an option to purchase.

(d) Within 30 days of any conveyance by the landlord of the title to the property subject to the option agreement, the landlord must notify the renter that a conveyance has occurred and to whom the conveyance was made.

(e) A renter may convey, transfer, or assign the option without the prior written consent of the landlord unless the option to purchase agreement states otherwise.

(f) The enumeration of rights and obligations in this subdivision does not restrict a court from finding the existence of other rights and obligations not inconsistent with this section.

Subd. 5. **Disclosure requirement.** At least ten days before entering into an option agreement, a landlord must deliver to the renter, in addition to the disclosures required under sections 513.52 to 513.60, as applicable, the written disclosure in the form required under subdivision 6. A renter who does not execute the agreement is entitled to the return of any money given to the landlord in contemplation of execution of the agreement.

Subd. 6. **Disclosure form.** (a) The disclosure required under subdivision 5 must be in a document separate from the lease with an option to purchase agreement or any other document or writing.

(b) The disclosure must contain:

(1) a legend, IMPORTANT INFORMATION ABOUT RENT-TO-OWN TRANSACTIONS, which must be in 28-point bold and underlined type and centered on the page; and

(2) a subheading, THIS IS A RENTAL AGREEMENT, NOT A SALE OF PROPERTY, which must be in 24-point type and centered on the page.

(c) All other text must be in 12-point type. The disclosure statement must be double-spaced, except that there must be four spaces between each section.

(d) The disclosure must be in the following verbatim form:

IMPORTANT INFORMATION FOR RENTERS ABOUT

RENT-TO-OWN TRANSACTIONS

THIS IS A RENTAL AGREEMENT

IT IS NOT A SALE OF PROPERTY

The Basics

1. Agreements like this are called "lease with an option to buy" or "rental purchase agreements" or "rent-to-own agreements."

2. This agreement DOES NOT GIVE YOU ANY OWNERSHIP RIGHTS.

3. What you get is the right to buy the property when the option goes into effect.

4. You continue to be a renter according to the terms of your lease until and unless you exercise the option to buy.

5. You can claim the Minnesota Renters Credit on your taxes.

Things to Consider Doing Before Signing a Rent-to-Own Agreement

1. Get the advice of a lawyer.

2. Get an independent appraisal of the property by a professional.

3. Get an independent inspection of the property by a professional.

What are the Landlord's Responsibilities in this Transaction?

1. Until the option to buy goes into effect, the landlord must follow all the laws that govern landlords and assume all the duties assigned to the landlord by the lease.

2. You and the landlord, as provided under existing law, may agree that you will take on certain repairs or maintenance but only if you are compensated for doing so.

What are Your Rights Under This Agreement?

You have the right to:

1. Live in the house and have all the other rights under law given to tenants.

2. Know what the cost of buying the house will be or how that cost will be determined.

3. How your right to buy the house may be exercised.

4. Know about any problems with the title that might make it difficult or impossible for you to buy the house at the end of the agreement.

5. Know whether or not you can sell your right to buy the house to somebody else.

What Happens if the Landlord Sells the House?

If the new buyer does not have to (or will not) honor the option agreement, the transaction is automatically canceled and the landlord has to give back all the money you paid for the option.

What Happens if You Miss Your Rent Payments or Otherwise Violate the Lease?

1. You could be evicted and lose your option to buy and the money you paid for the option.

2. BUT, if you miss a rent payment, you have 15 days to make up the payments.

3. A rent-to-own arrangement is NOT A MORTGAGE. You have NO PROTECTION under Minnesota's foreclosure laws.

What Happens When it is Time to Exercise Your Option to Buy?

1. You will probably have to get a mortgage or other loan or come up with the money to buy the house.

2. If you do not buy the property, you will probably lose your option payment and you may have to leave the property if that condition is in the lease.

Subd. 7. **Right to cure nonpayment.** (a) Notwithstanding any other provision of law, a renter who has entered into a lease with an option to purchase agreement may cure a breach of the lease consisting of nonpayment of rent within 15 days of the breach or until the date by which the option is to be exercised, whichever is sooner, before a landlord may commence eviction under section 504B.321.

(b) An option agreement remains effective if:

(1) the renter redeems the tenancy pursuant to section 504B.291; or

(2) the landlord voluntarily agrees to permit the renter to cure by paying the rent and recover or retain possession following the disposition of an eviction action.

Subd. 8. **Automatic cancellation of option.** Upon conveyance of the landlord's interest in the property to a third party, if the third party does not take subject to the option, the landlord must, within ten days of the conveyance, return the entire cost of the option to the renter.

Subd. 9. **Waiver.** The provisions of this section may not be waived.