RENT-TO-OWN LEASES versus LAND CONTRACTS

Default of either a Rent-to-Own Lease or a Land Contract can result in an eviction, but a Rent-to-Own Lease is eligible for CERA benefits, while a Land Contract is not.

The problem: the title at the top of an agreement may not match what is actually going on. Sometimes a Rent-to-Own Lease is a Land Contract in disguise.

How can you tell what kind of agreement it really is? Unfortunately, there are no easy answers on this topic: Michigan law does not draw a clear line between the two kinds of agreements. Both are considered legal, if written properly, but what kind of agreement it actually is comes down to the particular terms – what they legally agree to defines the document, not the label at the top.

As you read the terms of the agreement, look for some Red-Light clues that suggest a Land Contract, and some Green-Light clues that suggest a proper Lease:

**Red Lights** (could be a Land Contract):

- Tenant has to pay property insurance and/or property taxes.

- Significant amount of “rent” is credited toward purchase price *(more than 5% of the monthly payment)*.

  *The more money the tenant has paid to landlord towards the purchase price, the more the tenant stands to lose if the landlord evicts them for defaulting on payments.*

- Significant deposit required toward purchase price or purchase option *(5-7% of final purchase price or more)*.

- If the rent-to-own agreement says it may be recorded *(whether it is actually recorded or not)*.

- Term of Years is more than one year. *(Most Michigan residential leases are for 12 months, then going month-to-month thereafter.)*

- The document talks about forfeiture or foreclosure if the Tenant defaults.

**Green Lights** (could be Lease eligible for CERA):

- Tenant has no obligation to purchase the property at the end of the contract and does not own the property at the end of the contract: the tenant just has an option to purchase for additional payment.

- Very little or no money is required as a cash “deposit” towards the purchase portion of the agreement.

  *Proper leases often have a security deposit requirement, which is allowed under the law; a disguised land contract may have an additional cash deposit toward the purchase price or may try to say that the security deposit will be applied toward the purchase price.*

- Tenant does not have to insure anything other than their own personal belongings.

If you have any questions or concerns about whether a Rent-to-Own agreement is eligible for CERA benefits as a lease, or ineligible as a land contract, spend some extra time studying the terms, and asking for additional input.