

HOUSE RESEARCH

Bill Summary

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Subject: Extension of foreclosure reconveyance protections to farms

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Overview

The 2004 Legislature created Minnesota Statutes, chapter 325N, which substantively regulates foreclosure reconveyances, a type of transaction that is often used in “equity-stripping.” Equity-stripping occurs when a homeowner in foreclosure transfers the residence to an investor, the investor then charges the homeowner excessive fees and interest, removing the equity from the residence, and eventually forecloses on any interest the homeowner may have in the residence. Chapter 325N places both general contractual safe guards on foreclosure reconveyances, such as requiring that all contracts are written, and the homeowner has a five-day right to cancel, as well as substantive limitations. The substantive limitations in chapter 325N require a foreclosure reconveyance transaction to include that the investor must verify the homeowner’s income, and therefore ability to successfully complete the reconveyance, and that the investor must pay the homeowner 82 percent of the fair market value of the residence if the homeowner is evicted or voluntarily moves out.

This bill provides that farm owners, whose primary residence is their farm, receive the same contractual and substantive protections provided to residential homeowners relating to foreclosure reconveyance.

Section

- 1 **Foreclosed homeowner.** Revises the definition of “foreclosed homeowner” to include an owner of property used for farming.
- 2 **Residence in foreclosure.** Revises the definition of “residence in foreclosure” to include property used for farming
- 3 **Transfer of real property.** Deletes term “residential” and replaces the term “real property” with “residence” so that the section includes references property used for farming.