

HOUSE RESEARCH

Bill Summary

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Subject: Notice to Tenant of Pending Foreclosure

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Overview

This bill requires notice to a prospective tenant where the property has received a contract for deed cancellation or mortgage foreclosure sale notice, provides an exception for longer lease terms in certain circumstances, permits a tenant to withhold payment of rent for the final month of a contract for deed cancellation or mortgage foreclosure redemption period, and lengthens the notice requirement before a holder may recover possession of property by eviction.

Section

1 Restriction on Lease Terms; Required Notice

Subd . 1. Limitation on Lease; Notice to Tenant. Provides that, upon receiving
a notice of a contract for deed cancellation or a notice of a mortgage foreclosure sale,
a landlord may only enter into either:

- or
- (i) a periodic residential lease agreement with a term of not more than two months, the time remaining in the contract cancellation period or mortgagor's redemption period, whichever is less; or
 - (ii) a fixed term residential tenancy not extending beyond the cancellation period or the landlord's period of redemption.

Consistent with the current law, this requirement applies until the contract for deed has been paid in full, the mortgage default has been cured or the mortgage has been

satisfied, the property has been redeemed from a foreclosure sale, or a receiver has been appointed.

This section also creates a new requirement that a landlord must notify a prospective tenant in writing that the landlord has received a contract for deed cancellation or mortgage foreclosure sale notice, and the date on which the cancellation or redemption period ends.

Subd . 2. Exception. This section of law does not apply if: (1) the holder or the mortgagee agrees not to terminate the tenant's lease other than for lease violations for at least one year from the start of the tenancy, and (2) the lease does not require the tenant to prepay rent for any month commencing after the end of the cancellation or redemption period, so that the rent payment would be due prior to the end of the cancellation or redemption period. A definition is provided for the term "holder."

Subd . 3. Transfer of tenancy.

If a tenant agrees to longer lease terms, as permitted by the exception in subdivision 2 of this section, the tenant is deemed to transfer the tenancy to the holder immediately upon the holder succeeding to the interest of the landlord under the lease, and the tenant is bound to the holder under all provisions of the lease for either the balance of the lease term or for one year after the start of the tenancy, whichever comes first. In other words, once the holder takes control of the property, the tenant is considered to have agreed that the holder will be the tenant's new landlord.

A tenant is not obligated to pay rent to the holder until the holder mails written notice to the tenant that the holder has the interest formerly held by the outgoing landlord. A letter from the holder to the tenant making this statement is prima facie evidence that the holder has succeeded to the interest of the landlord.

Subd . 4. Holder Not Bound by Prior Acts. Provides that a holder who succeeds to an interest in a longer-term lease as provided by the exception in subdivision 2 of this section is not liable for any act or omission of a prior landlord, is not subject to any offset or defense the tenant had against a prior landlord, and is not bound by any modification of the lease terms made by the tenant and former landlord, unless the holder consented to the modifications.

2 Withholding Rent. Provides that a tenant may withhold payment of all or a portion of the rent for the last payment period of a residential rent agreement for the last month of a contract for deed cancellation period or a mortgage foreclosure redemption period, on the grounds that the tenant's security deposit should serve as payment for the rent.

3 Grounds for Recovery of Possession by Eviction. Modifies the existing law to provide that a holder may recover possession of property by eviction after the expiration of the time for redemption on a foreclosure or after termination of contract to convey the property, if the person holding the property (the tenant) during the redemption or termination period: (1) entered into the lease after the date of notice of mortgage foreclosure or contract for deed cancellation, and prior to the expiration of the redemption or termination period, and (2) the

person received at least two months' written notice to vacate consistent with the specifications in existing law.