

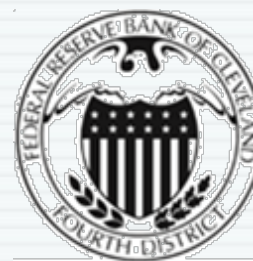
The American Dream or Just an Illusion?

Understanding Land Contract Trends in the Midwest Pre- and Post-Crisis

Ohio Legislative Briefing
October 9, 2019

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The views expressed are those of the presenter alone and do not necessarily reflect the views of the Federal Reserve Bank of Cleveland or the Federal Reserve System



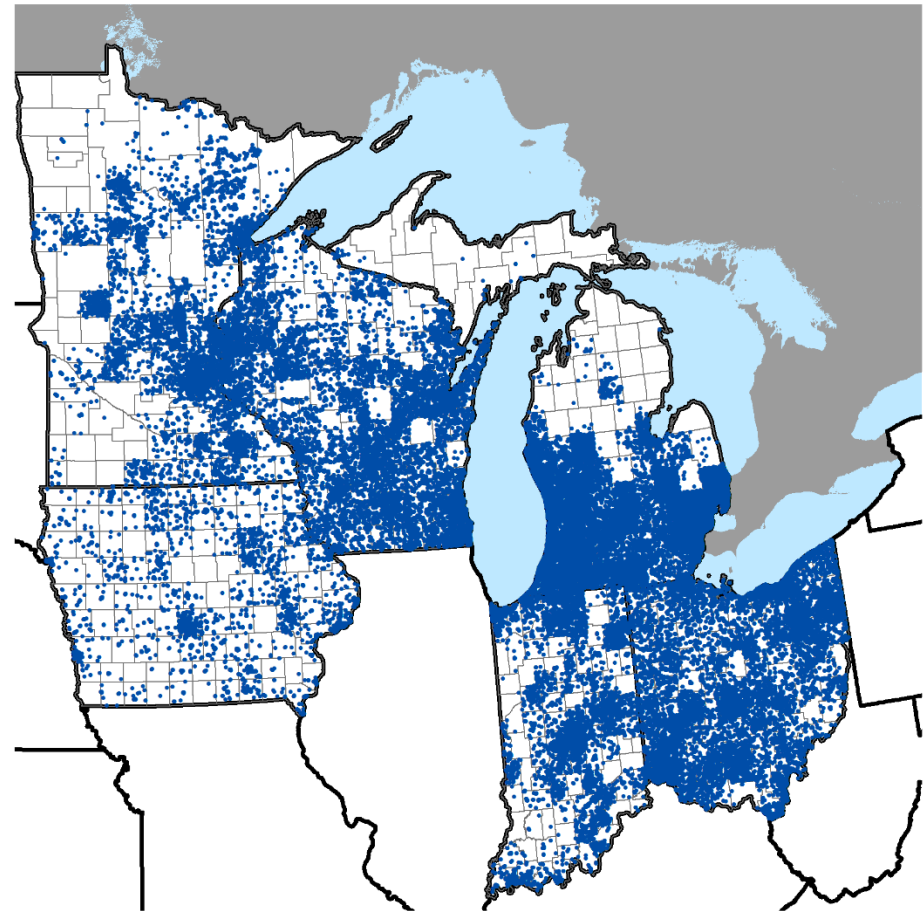
What is a contract for deed?

- Seller financing
- Full responsibility of ownership without the same rights or protections
- Could appear to be a viable alternative for potential homebuyers with poor or no credit
- Uneven recordation – limited data available
- Gained recent attention from reporting by the *New York Times*, researchers, and others



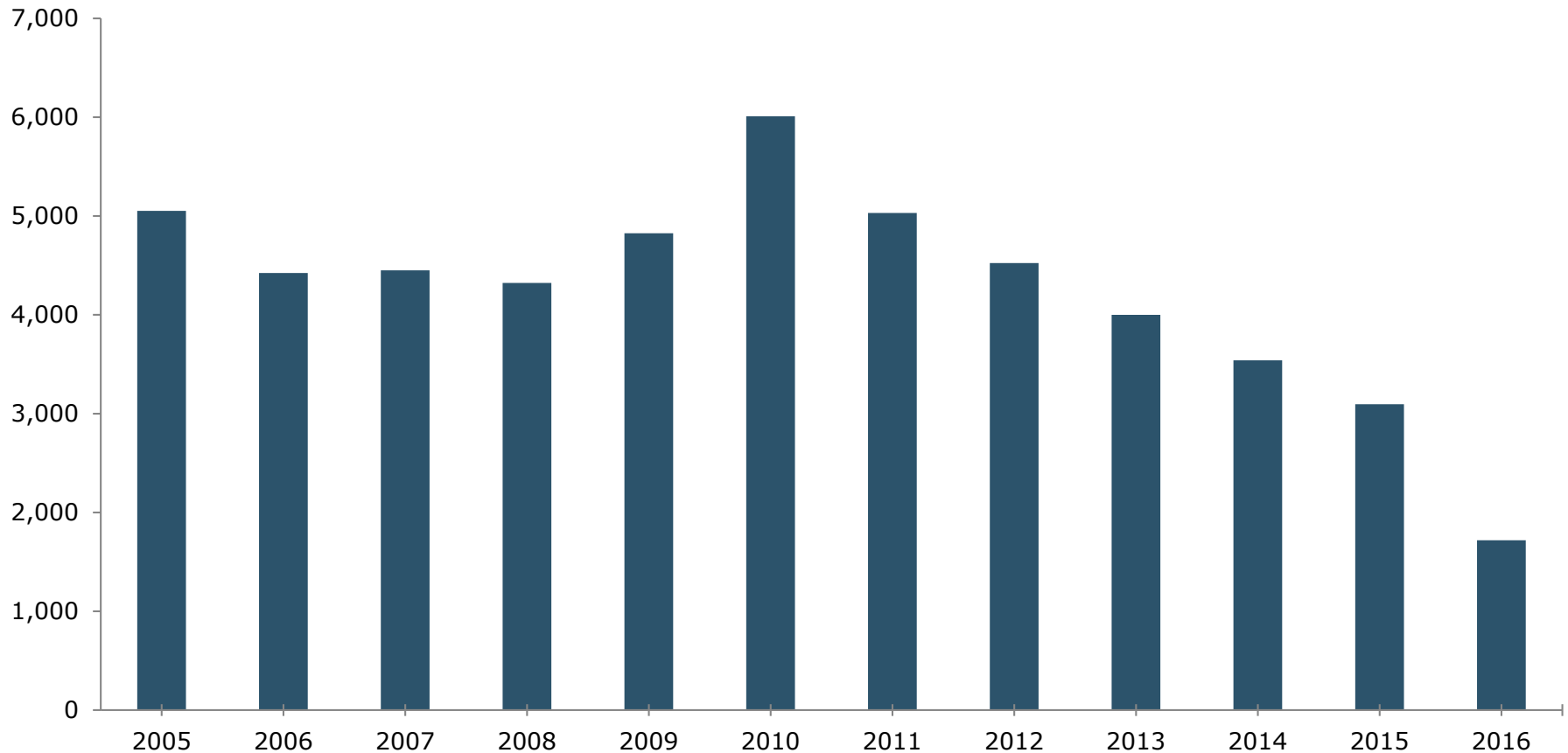
Focus on Midwest States

- We analyzed contract characteristics for about 212,000 total transactions across all 6 states (2005-2016)
- Many counties had few or no records; therefore, for our neighborhood-level analysis, we set a threshold of at least 500 recorded transactions per county
- Ohio and Michigan have largest share of recorded contracts for deed



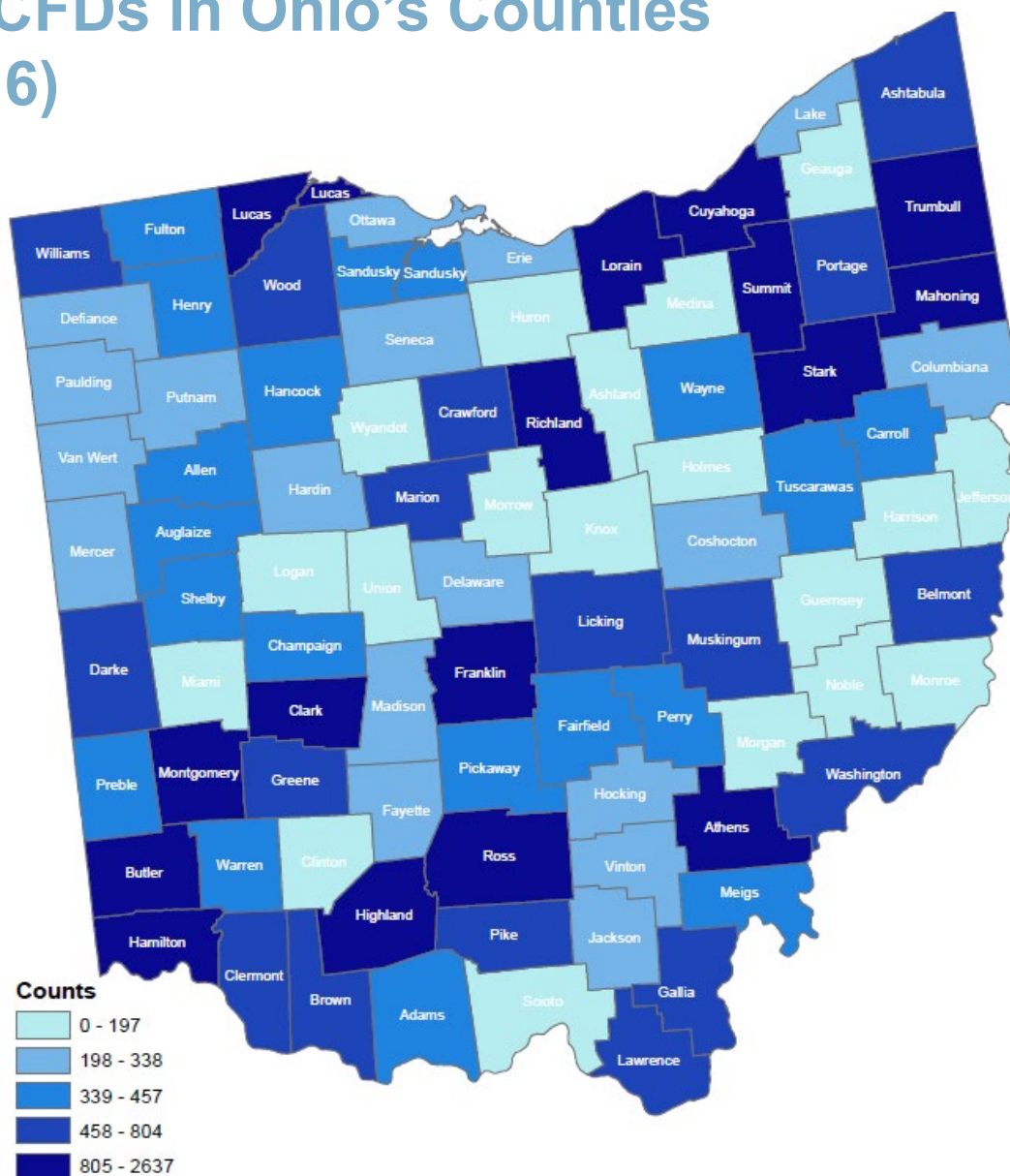
Contracts for deed activity in Ohio

Recorded CFDs peaked in 2010 and have declined since, similar to trends in other states



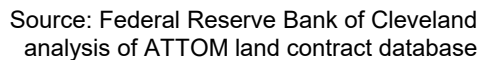
Source: Federal Reserve Bank of Cleveland analysis of ATTOM land contract database

Recorded CFDs in Ohio's Counties (~2005-2016)



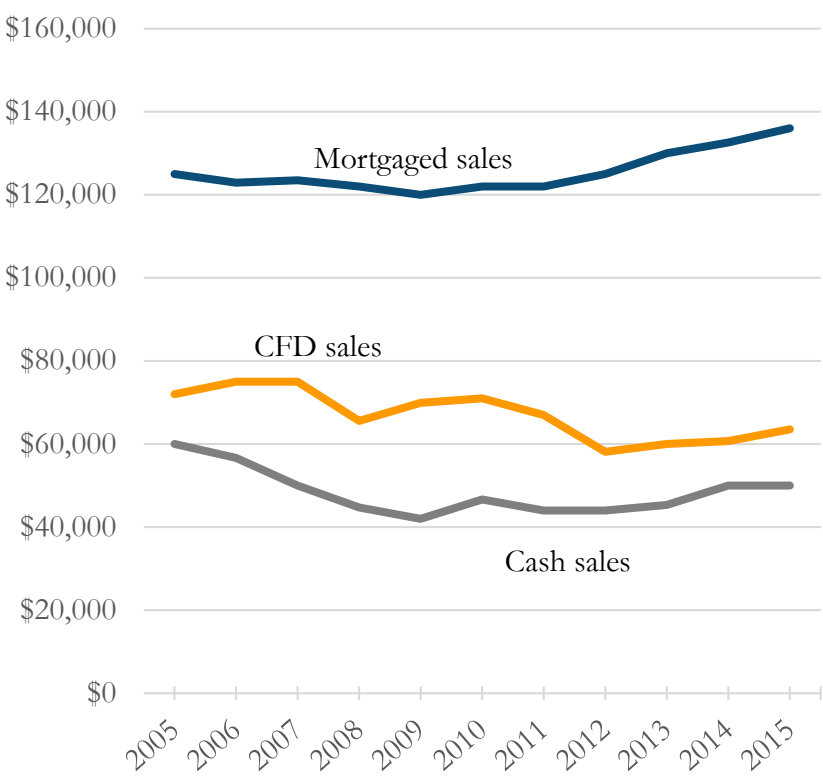
Source: Federal Reserve Bank of Cleveland analysis of ATTOM land contract database

Highest rates tend to be in the more rural counties in Ohio

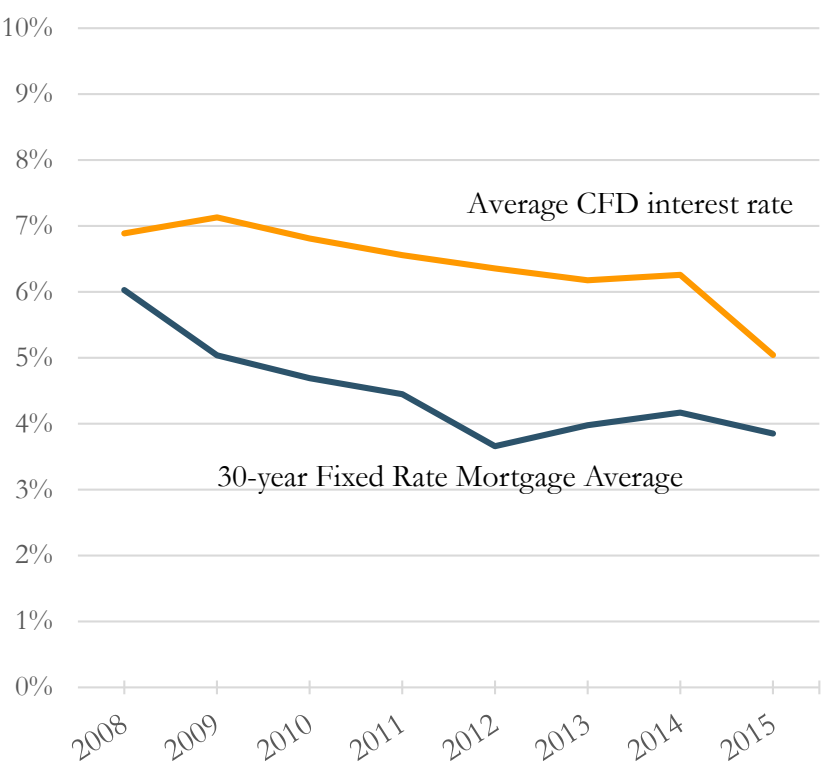


CFDs tend to be relatively low value, high interest rate

Median sales price

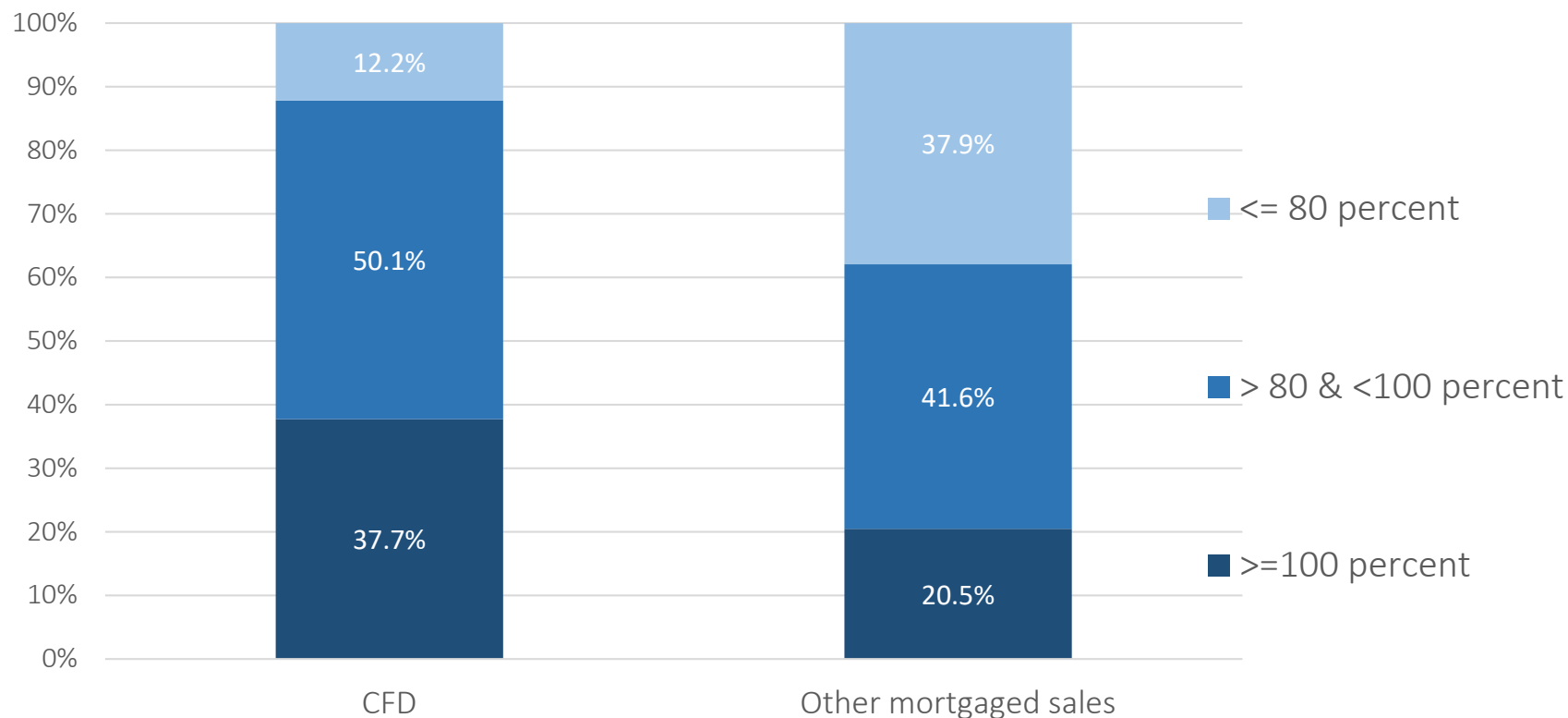


Average interest rate



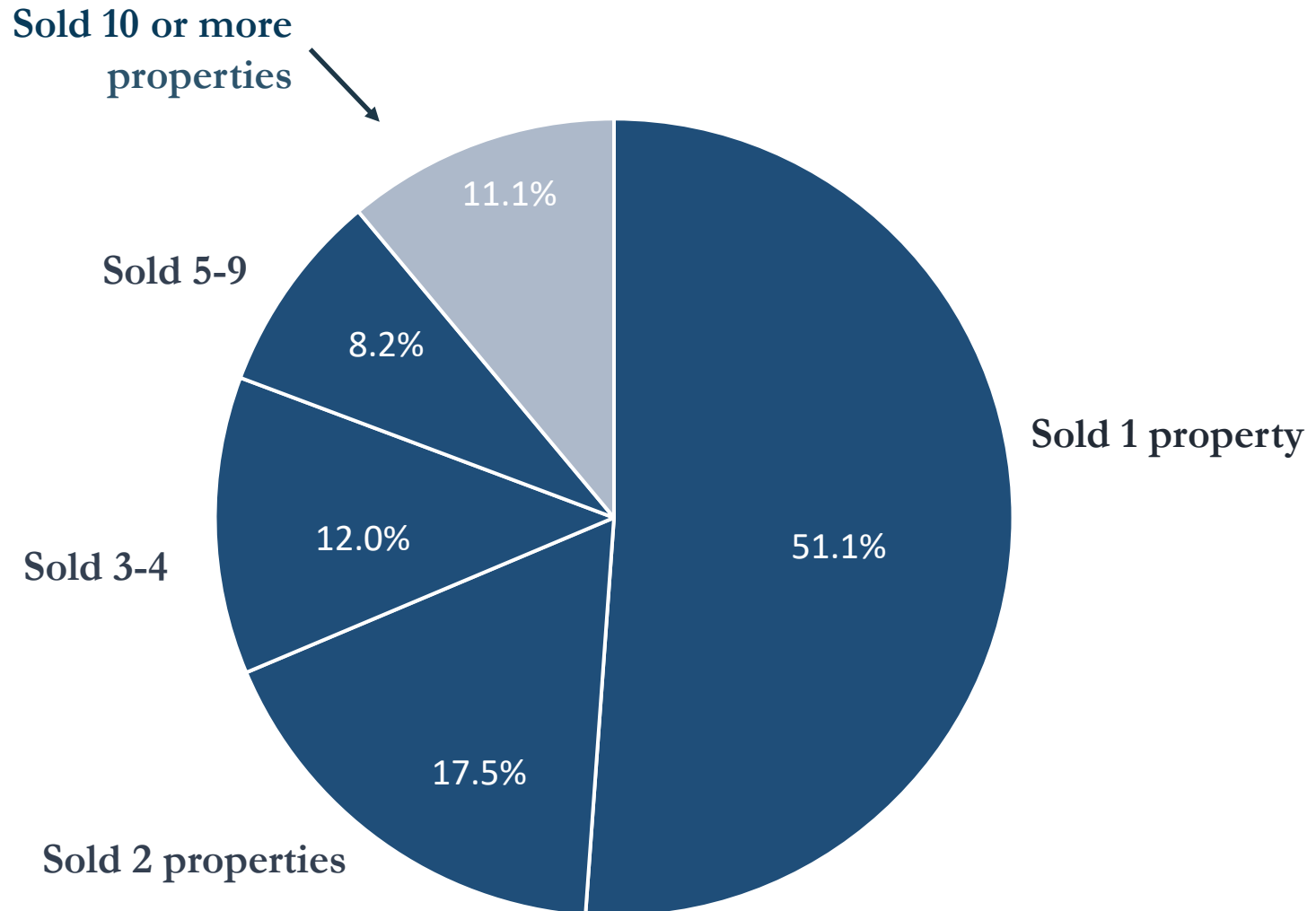
Sources: Author's analysis of ATTOM data and Core Logic Real Estate data. Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MORTGAGE30US>, August 6, 2019

Loan to value ratios tend be higher for CFD sales

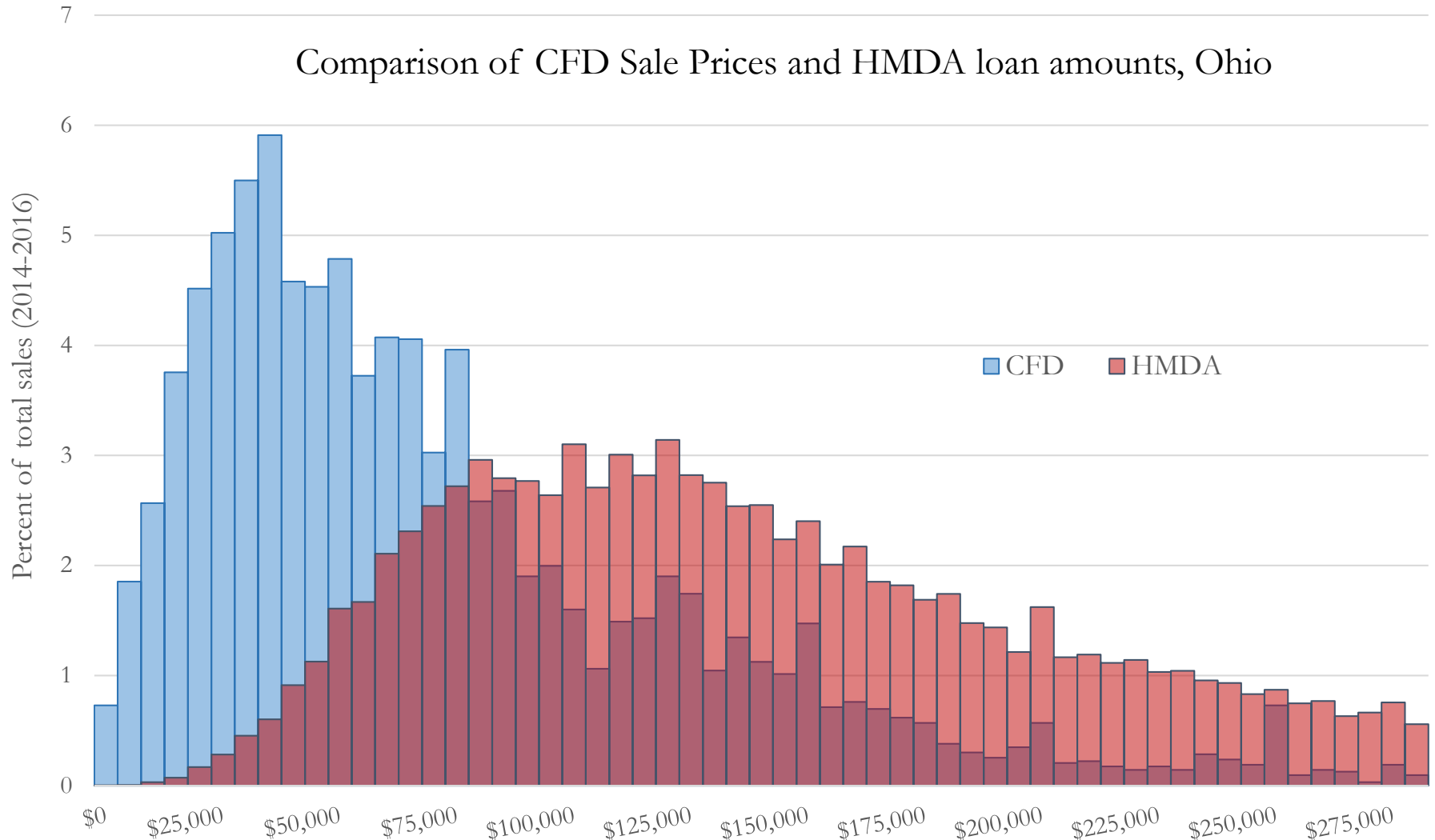


- **38 percent of CFD sales have no down payment**
- **67 percent of CFDs have terms of 5 years or less**

Majority of CFD sellers sold 1 property (2005-2016)



Traditional mortgage credit limited for sales < \$50,000

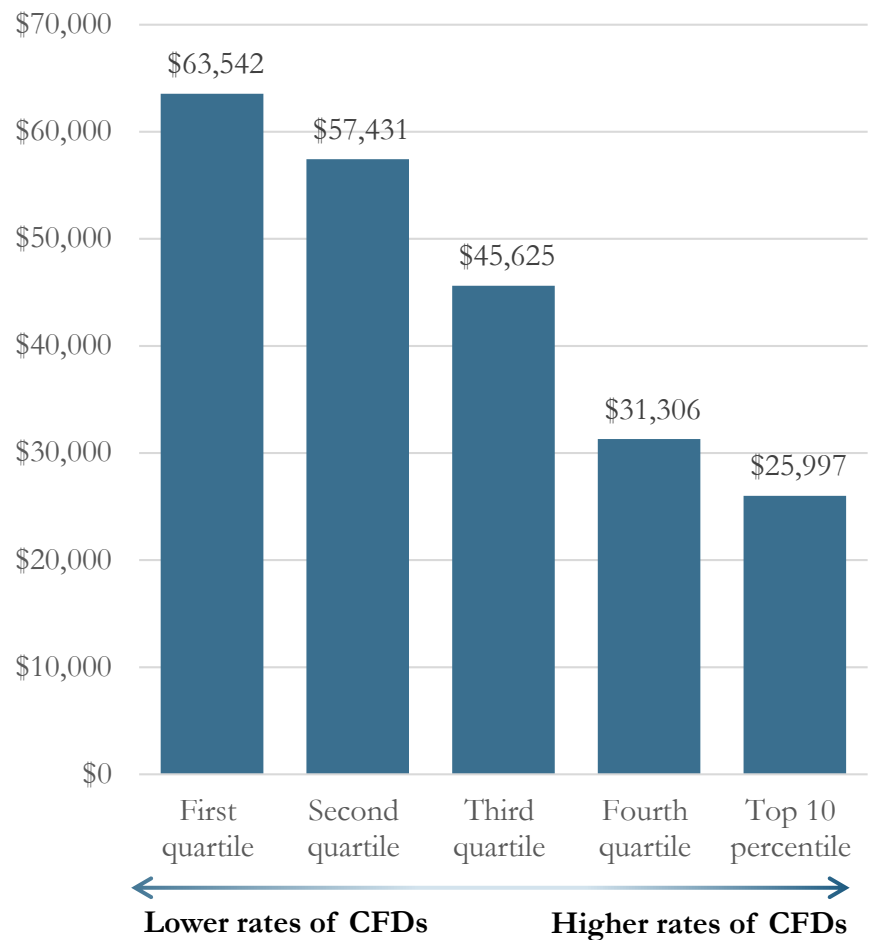


Sources: Federal Reserve Bank of Cleveland analysis of ATTOM land contract database and Home Mortgage Disclosure Act (HMDA) data

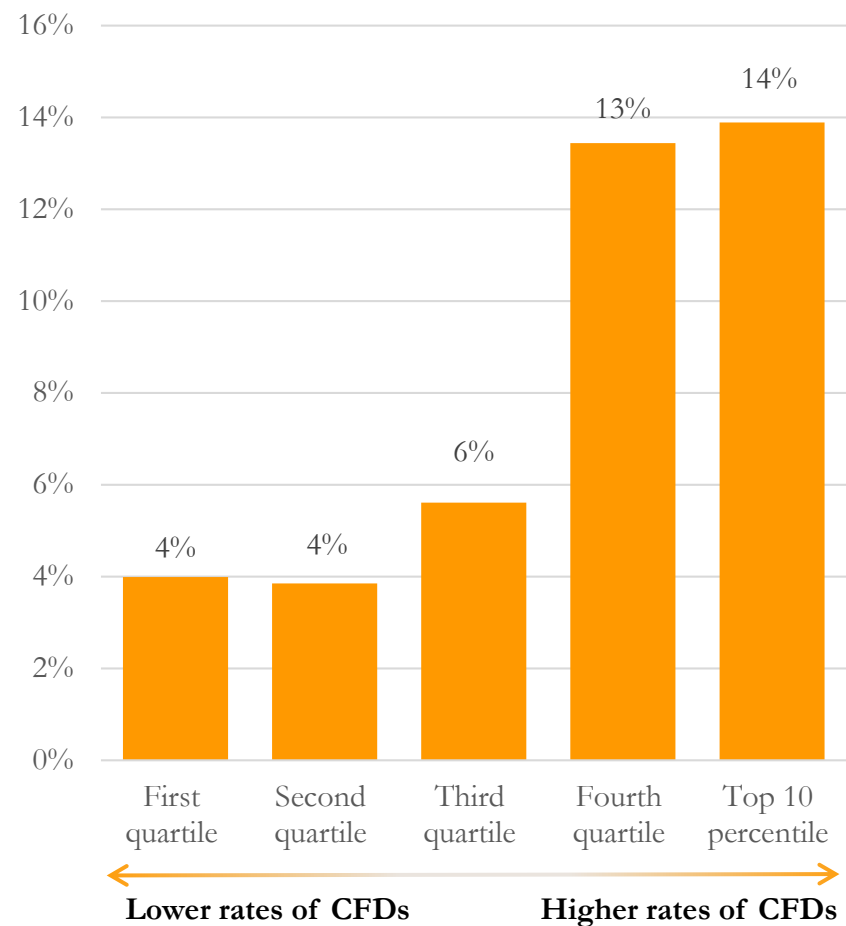
Neighborhood analysis in Ohio

In neighborhoods where CFDs are more concentrated, household incomes are lower and percent African-American is higher

Median Household Income



Percent African-American



Source: Federal Reserve Bank of Cleveland analysis of ATTOM land contract database

Housing market variables are most strongly associated with higher rates of CFDs

CFDs are concentrated in neighborhoods with...

- Older housing stock
- Higher rates of vacancy
- Less owner-occupied housing
- Lower median home values
- Less traditional mortgage activity

Discussion

- Difficult to track and gauge the scope of the issue given data limitations
- Low-dollar mortgage lending is decreasing
 - CFD activity is higher in neighborhoods with less access to traditional mortgage credit
- CFD sales are concentrated in distressed housing markets
- Evidence points to a disproportionate impact on disadvantaged home buyers
 - Potentially predatory form of seller financing, strips equity, creates unstable conditions for residents and communities
 - More prevalent among vulnerable populations already subject to a growing wealth gap
 - As-is sale conditions proliferate blight

Policy Interventions

- State laws regulating land contracts to include disclosures, recordation, and to eliminate forfeiture clause
- Local laws such as a required certificate of occupancy, requirement to cure all liens
- Legal aid services to buyers
- Refinancing or conversion to a mortgage
- Need viable lending alternatives
- Federal regulation
 - CFPB TILA

Thanks!

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See Report:

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