

Testimony of Elizabeth Goodell, Mid-Minnesota Legal Aid

Minneapolis, Minnesota

**Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, Subcommittee
on Housing, Transportation, and Community Development**

**Regarding “Exploiting the American Dream: How Abusive Land Contracts Prey on
Vulnerable Homebuyers.”**

July 11, 2023

Chairwoman Smith, Ranking Member Lummis, and members of the Committee, thank you for inviting me to testify today regarding the abusive potential inherent in the purchase of homes under installment land contracts.

I am a lawyer who supervises a practice group at Mid-Minnesota Legal Aid in Minneapolis. My practice group includes the representation of homeowners who are at risk of losing their homes.

Mid-Minnesota Legal Aid (MMLA) provides free legal services for low-income residents of a 22-county area including Hennepin County and the city of Minneapolis. We serve clients whose household income is in the range of 125% of the federal poverty level, or about \$37,000 for a family of four.

“Land Contracts” are referred to as “Contracts for Deed” in Minnesota.

MMLA has experience with contracts for deed dating back two decades, including the financial and foreclosure crisis of 2008, its leadup and its aftermath.

On the surface, a contract for deed may appear to be a reasonable path to homeownership for people who cannot qualify for a purchase money mortgage. In our experience, however, contracts for deed are a vehicle for exploitation rather than a path to ownership.

In representing low-income clients with contracts for deed, we have observed the following abusive practices. These examples are based on the experiences of clients we represented.

- The full payment due under the contract was clearly not affordable for the buyer. The monthly payments were manageable but the balloon payment in 3 years was clearly out of reach, given that the buyer was on a fixed income with no prospects for an increase. The balloon payment was exceedingly high because the purchase price was grossly inflated beyond the fair market value. The contract was sure to fail, and the seller filed an eviction action after the balloon payment was not made.
- The house was in serious need of repairs which the seller of course refused to make. The client came to MMLA to try to get the seller to make the repairs. The seller was really a landlord seeking to avoid the obligations of state law protecting tenants.

- The buyer had made significant payments towards the purchase price in a combination of down payment and monthly payments over several years, but experienced a loss of income and could no longer make the payments. Under Minnesota law, the buyer had no right to any of the equity in the property.

The use of contracts for deed by landlords to avoid their state law obligations to tenants is the most common abusive practice we have encountered. We have seen scores of cases where the “buyers” had the means to rent but not to buy, but the owner placed them in a contract for deed, allowing the owner to avoid responsibility for repairs and maintenance. In one case, our client had rented from the owner for years. The owner was facing the loss of his rental license because he failed to make required repairs. On the eve of the loss of the rental license, the owner talked the tenant, a senior woman of color with developmental disabilities, into signing a contract for deed. He then removed the property from the city’s registry of rental properties and allowed the property to fall into further disrepair. The tenant remained in the property for another three years before the owner brought an eviction action.

Contract for deed buyers most frequently come to our attention in this situation -- when they are being evicted. At that point, Minnesota law provides buyers almost no recourse. Minnesota law requires only a written notice of a breach in the contract for deed and a 60-day waiting period during which the buyer must cure the stated breach. After the 60-day period expires, the contract is deemed terminated and the buyer has no right to any home equity, to any appreciation in the value of the property during the term of the contract, to the return of any payments or the value of any repairs paid for.

Contracts for deed increased in volume in Minnesota between 2000-2020 because a large number of foreclosed homes became available for low prices (\$10,000-\$50,000) in certain areas. Further, the tightening of traditional mortgage credit, particularly for small dollar loans, contributed to an increase in contracts for deed as an alternative.

An investigation by the Minneapolis Tribune showed that the number of contracts for deed recorded in Hennepin and Ramsey counties increased 56 percent between 2007 and 2012. [Contract for deed can be house of horror for buyers \(startribune.com\)](#)

Research by Pro Publica showed that more than 1,800 contracts for deed were recorded in Minnesota’s 11 most populous counties in 2022. [How Contracts for Deed Put Families at Financial Risk — ProPublica](#)

Each of those transactions placed the buyer at risk of the abuses identified above.

All of the contract for deed buyers represented by MMLA were part of a vulnerable population: Low-income households without the means to buy homes using conventional mortgage lending. For many of our clients, their best interests lie in the availability of affordable, decently maintained rental housing rather than being pulled into contracts for deed.

Because of the overlap of poverty and race, low-income communities in our service area tend to be neighborhoods where a majority of the residents are people of color. Unscrupulous

sellers of contracts for deed do tend to target these communities and nearly all of our contract for deed clients have been people of color.

We are aware that Somali immigrants are the recent targets of abusive contracts for deed. Minnesota has a very high number of Somali immigrants. Sellers are aware that the Islamic religion of most Somali immigrants prohibits them from paying interest, which means they will not take out conventional home purchase loans. Contract for deed sellers therefore target Somali immigrants. The buyers we have learned about are not in MMLA's service area, so they are not our clients, but the cases we've heard about tend to include significant down payments, grossly exaggerated purchase prices and high monthly payments that were not sustainable. One family paid \$73,000 down and then struggled with monthly payments of \$4,800. If they defaulted on the payments, there is no requirement in Minnesota law that they get any of their money back. Another case involved a single Somali woman who paid \$35,000 down and was able to make the monthly payments, but she could not find an insurance company that would insure the house. Having insurance was a term of the contract, so she was facing termination of the contract and loss of the money she paid.

It's unconscionable that a seller would be able to keep such large payments in these situations.

The National Consumer Law Center issued a comprehensive list of recommended policy changes for the Consumer Financial Protection Bureau in its 2016 report, "Toxic Transactions: How Land Installment Contracts Once Again Threaten Communities of Color".

Short of a comprehensive policy overhaul at the federal level, there are a few changes to state law that would significantly improve the situation for buyers in Minnesota:

- Create a right of the buyer to a portion of the amount paid or a portion of the equity in the value of the property in case of default by the buyer.
- Create a requirement for an appraisal of the value of the property and an inspection of the property to disclose essential repairs.
- Require sellers to comply with the duties of landlords under landlord-tenant law until a particular amount of the purchase price has been paid.

Contracts for deed don't always fail, but they fail low-income, vulnerable populations, including people of color and immigrants, too frequently to allow the situation to go on as it is.

Thank you for the attention you are giving to this issue and for the opportunity to discuss it with you. I look forward to any questions you may have for me.