

**Opening Statement**  
**Exploiting the American Dream: How Abusive Land Contracts Prey on**  
**Vulnerable Homebuyers**  
**Subcommittee on Housing, Transportation, and Community Development**  
**Chair Tina Smith**  
**July 11, 2023**

Good afternoon. The Subcommittee on Housing, Transportation, and Community Development will come to order.

Everyone wants a safe, decent place to call home. Without this, nothing in your life works – not your job, your health, your education, your family, not anything. So when parents hear that there might be a way for them to buy a home for their families, something that may have seemed out of reach, we can understand what that would be like: safety, security, an opportunity for better school for their kids, to live closer to work, maybe a backyard or an extra bedroom for family. This is the American dream, and it's also the way that most people build wealth, grow into safe, secure life.

This subcommittee hearing today is about how this dream is being exploited by unscrupulous home sellers, under the guise of offering home ownership through complex contracts. Instead of a traditional mortgage, they sell homes “on an installment plan, with a high interest loan called a contract for deed or land contract.”<sup>1</sup>

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<sup>1</sup> <https://www.nytimes.com/2016/02/21/business/dealbook/market-for-fixer-uppers-traps-low-income-buyers.html>

These contracts go by different names in different places, but what they have in common is that they provide all of the risks and few of the protections homeowners can expect under traditional mortgages. The buyers in these contracts often are faced with extraordinary penalties if they miss a payment. People think they are they were on the path to owning their own home, when in fact they are on a path for financial disaster – forfeiting all the money they have paid in, as well as the place they thought was home.

Too often, these contracts are designed to fail.

I became interested in this issue when I learned about how these land contract sellers are targeting Somali Muslim immigrants in Minnesota, who, under the tenants of their faith, are limited in paying interest with a traditional mortgage. The stories I've heard are heartbreaking and enraging. Families targeted, and exploited because of their religion, and their inability to get access to a traditional mortgage.

As we did more research, we learned that unscrupulous contract for deed sellers are operating across the country, but they typically target black, brown and immigrant communities – groups that have long suffered from housing discrimination. It's estimated that there have been more than three million homes sold with land contract across the country, to Latino families in Minnesota, Black families in Akron and Detroit, and families of all races in Ohio; Texas; Georgia; and many other places.

Our purpose with this hearing today is to understand how these land contracts work, how they differ from traditional mortgages, why their use is apparently expanding, and what this all means for the people caught up in this web.

As a start, we know that many of these land contracts lack basic consumer protections. For example:

- In most situations, the seller continues to own the property until the entire loan is paid off and if a family misses a payment – which often happens – the seller can simply evict the family and keep the home and all the money for themselves, so they can turn around and do the deal all over again with the next unsuspecting buyer.
- Land contracts often have loan terms that are illegal in a traditional mortgage – like balloon payments, or lower payments at the beginning, followed by unaffordably high payments down the road. Congress specifically banned most “balloon payments” after the 2008 financial crisis, but not for contracts for deed.
- Land contracts have no basic protections for buyers, like assessing the buyer’s ability to pay, a fair appraised value of the home, or sussing out other liens or the safety of the property. These were all required by Congress for mortgages after the 2008 financial crisis, but not for land contracts.

It's important to understand that land contracts, contracts-for-deed, and similar financing mechanisms have been around for a century or more. When used properly, are a legitimate tool for financing real estate transactions. In recent years, some non-profits have launched innovative programs using land contracts, coupled with housing counseling and reasonable contract terms, to help families buy homes for the first time. I commend the organizations who are using land contracts as tools for good.

But land contracts also have also historically been a tool of housing discrimination and exploitation of poor communities and communities of color who could not get access to traditional banking and mortgage products. Today these buyers still have a hard time getting access to credit, so the legacy of discrimination lives on today. Including in my home town, where the disparities between white and black home ownership are the greatest in the nation.

So today we are going to dive into this issue with this excellent panel of witnesses. We want to understand how this is happening, how prevalent the problem is, what impacts it has on families, and what Congress should consider as we think about basic consumer protections, and how to address the root causes of lack of access to capital and lending, so every family has a safe place to call home.

Thank you, Sen. Lummis, thank you for working with me on this hearing. You are recognized for your opening statement.