

The American Dream or Just an Illusion?

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

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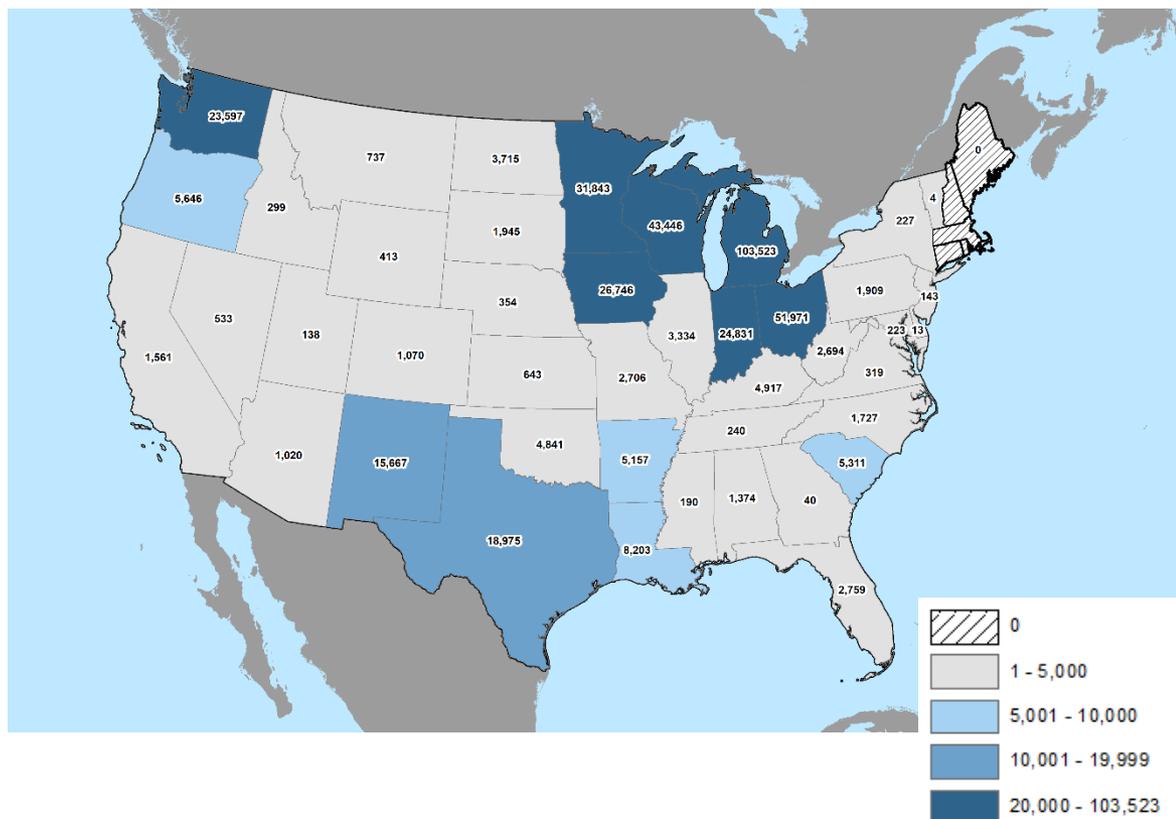
What is a contract for deed

- 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



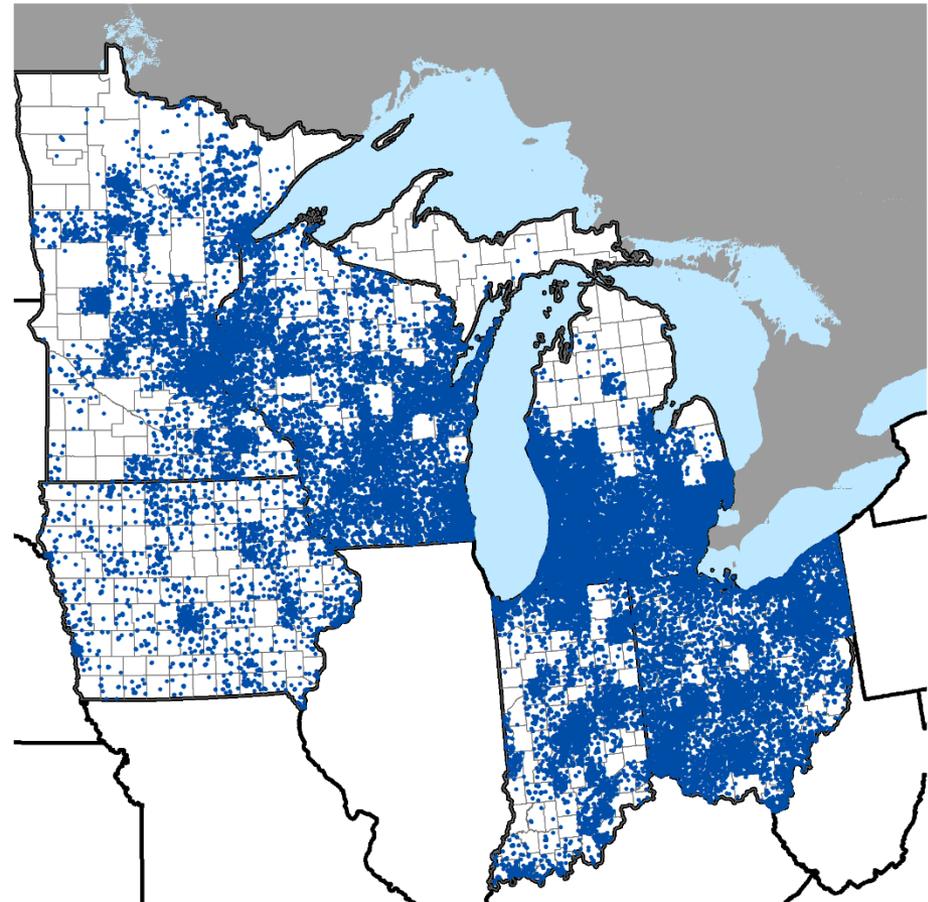
ATTOM database (2005-2016)

- Earlier studies relied on ownership data in property records, individual county records, or surveys
- ATTOM advertised a national dataset of land contract transactions
- Data quality and coverage is uneven



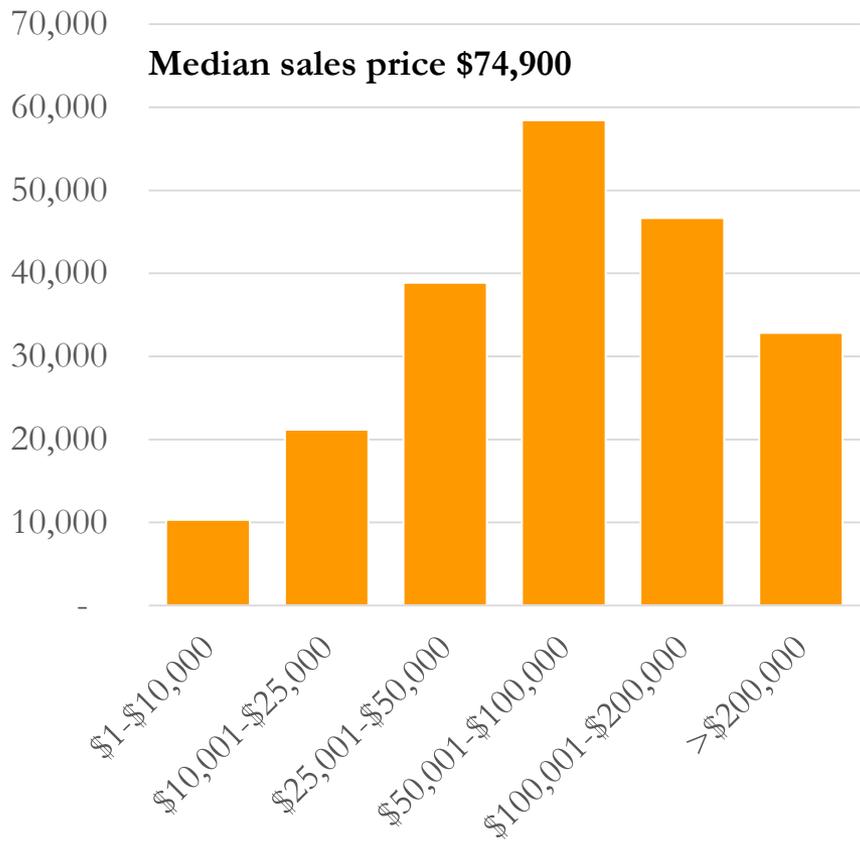
Focus on Midwest States

- We analyzed contract characteristics for about 280,000 total transactions across all 6 states
- 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
- Michigan has largest share of recorded contracts for deed

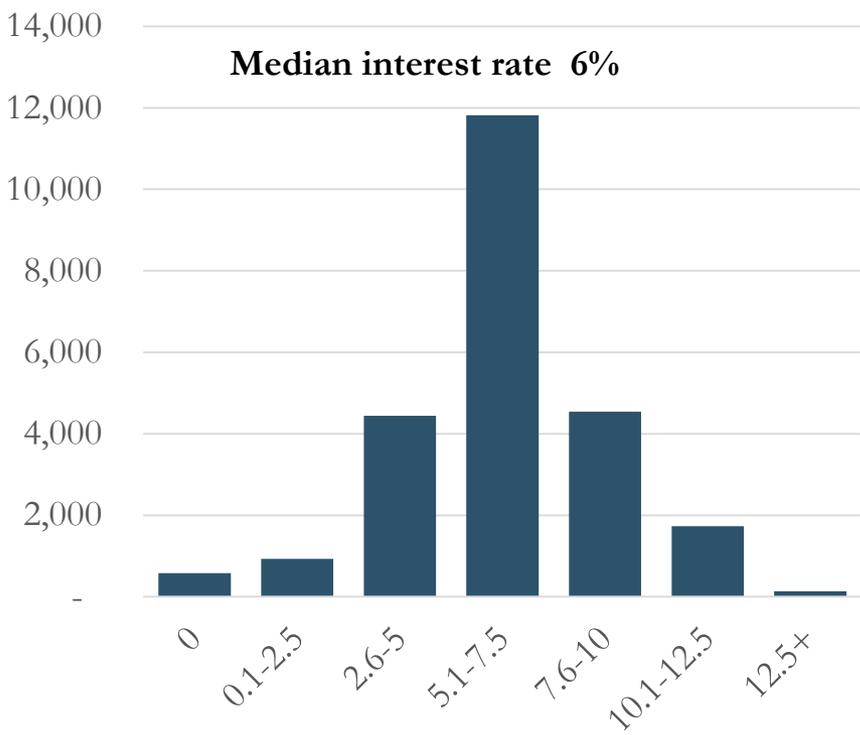


CFDs tend to be relatively low value, high interest rate

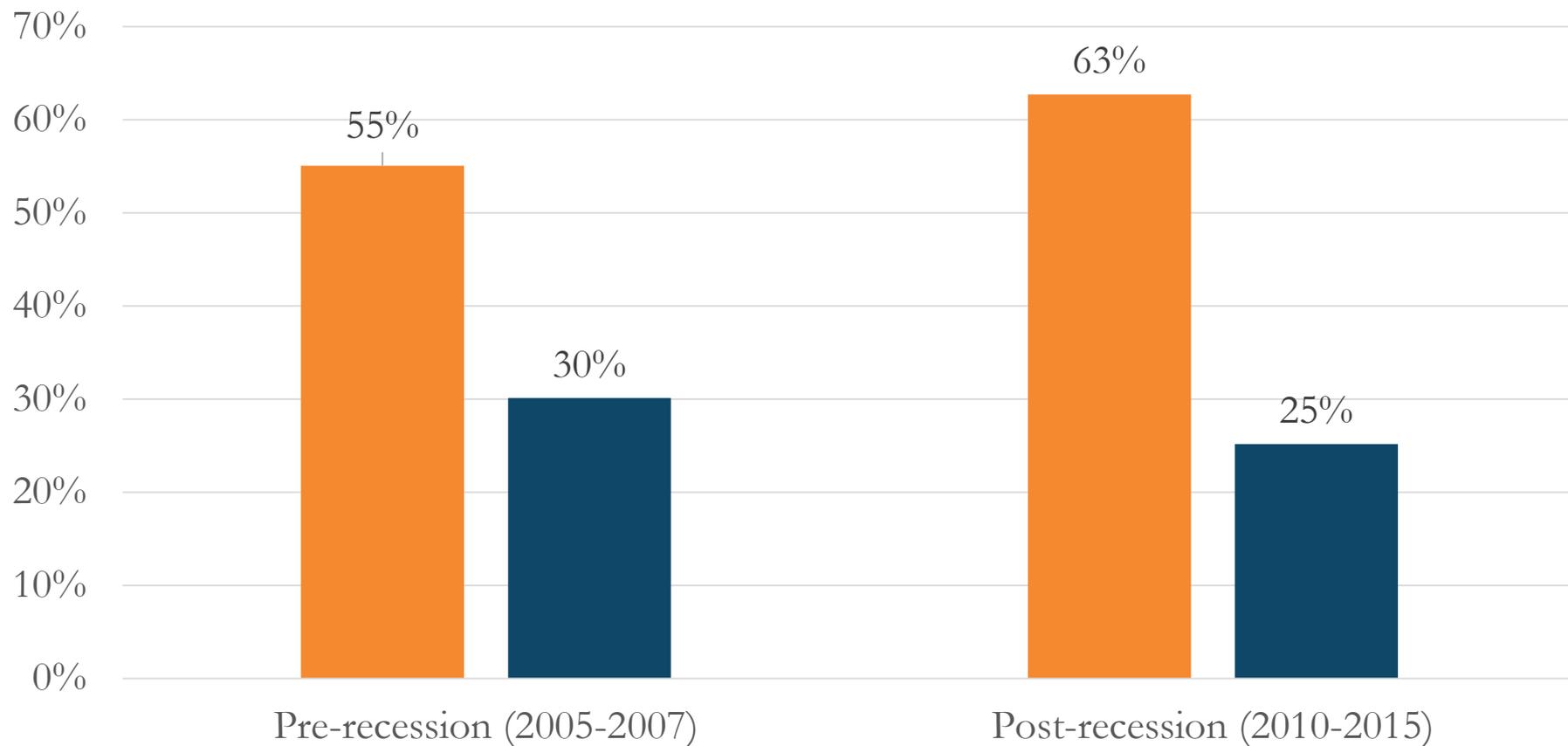
Number of Contract for Deed Transactions by Amount



Number of Contract for Deed Transactions by Interest Rate



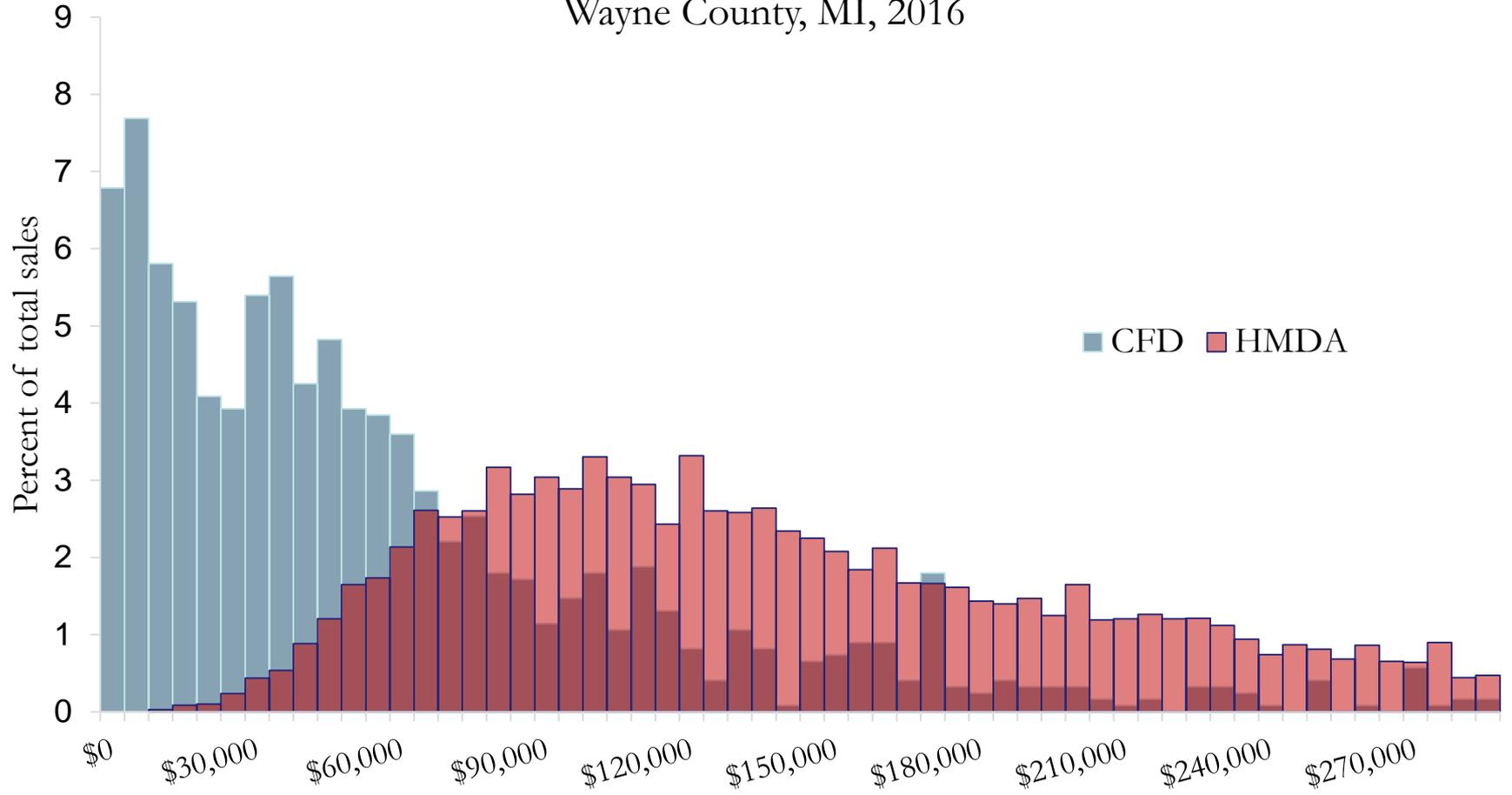
CFD prices fell relative to sales price of mortgaged homes and rose relative prices of cash sale homes



- % of CFD sales that were 75% or less than median price of a mortgaged home
- % of CFD sales that were 75% or less than median price of cash sale home

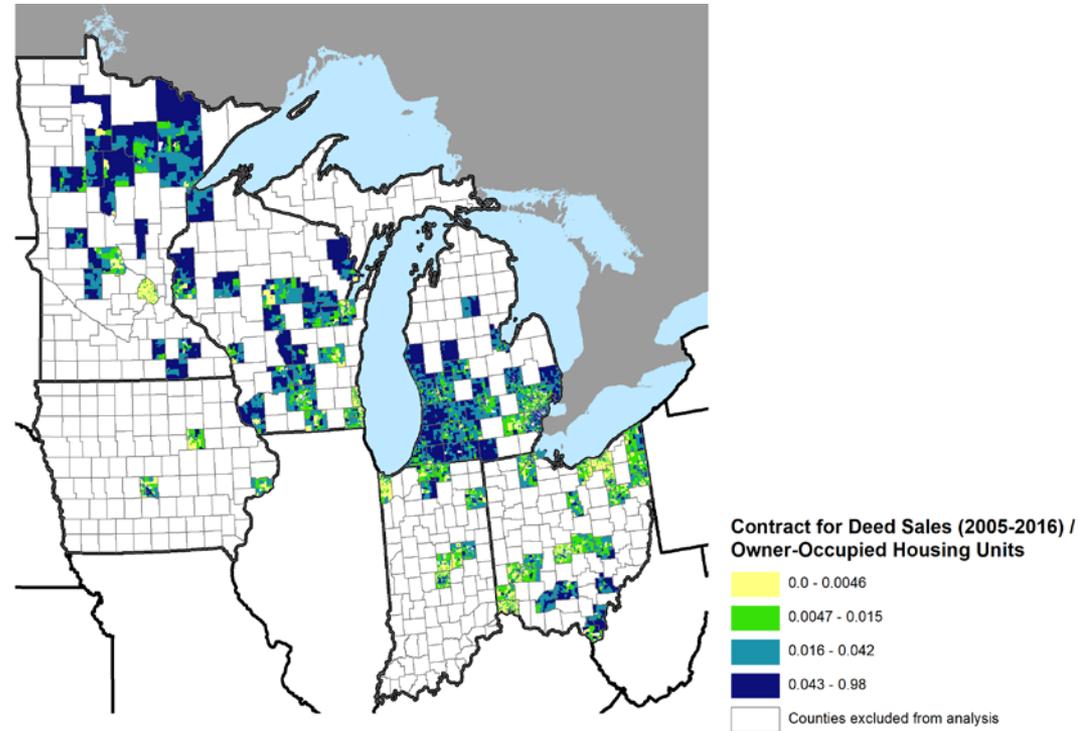
Sale Prices for CFDs Skewed Low Compared to HMDA Mortgages

Comparison of CFD Sale Prices and HMDA Loan Amounts
Wayne County, MI, 2016

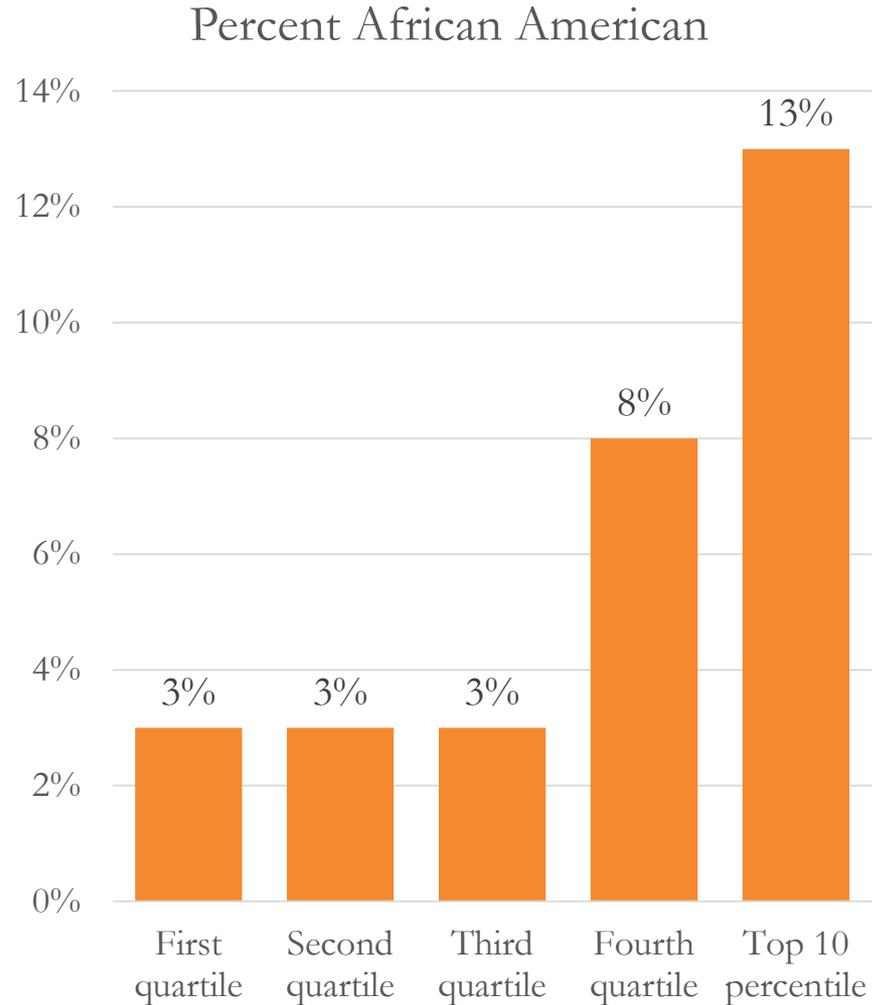
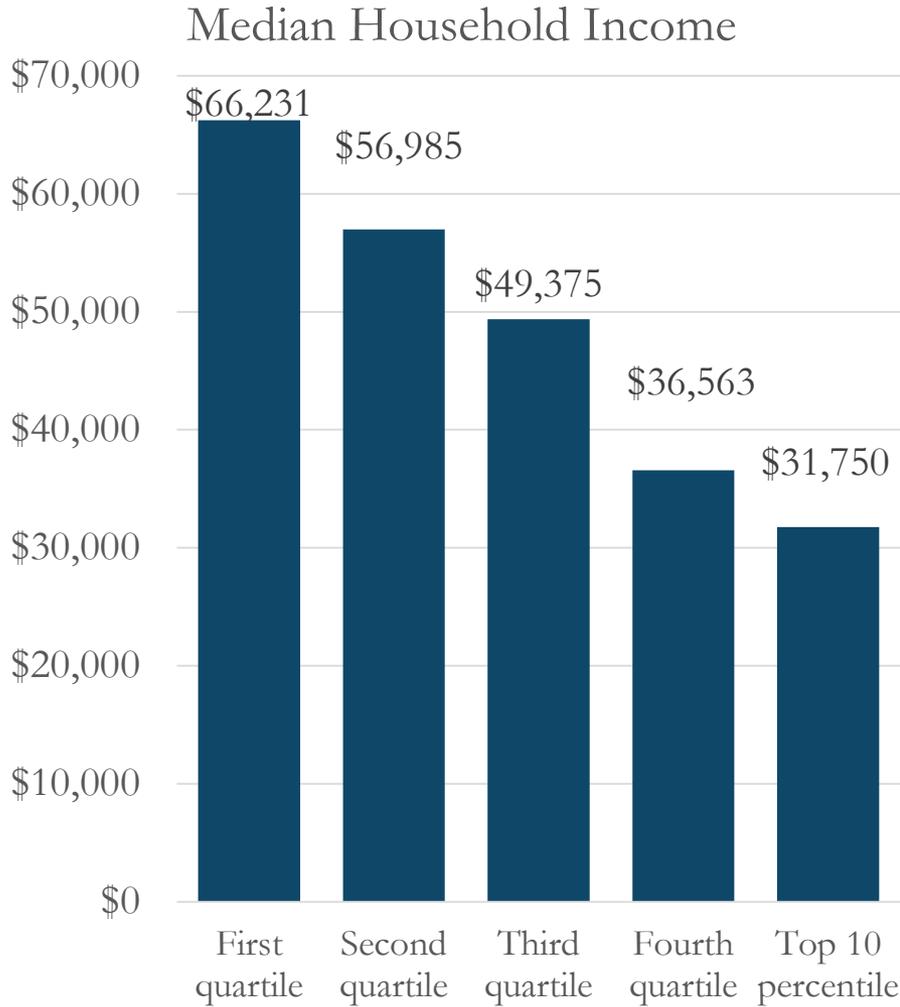


Neighborhood Level Analysis

- Grouped data into quartiles by number of CFD sales per owner occupied homes
- All block groups in the 99 counties with at least 500 CFD sales were included in the analysis
- Demographic, socioeconomic, and housing market variables were derived from census ACS and HMDA data



Neighborhood characteristics by CFD sales activity quartile



Relationship between rate of CFD sales and neighborhood characteristics

	Model 1	Model 2
Owner Occupied Units	(-)	(-)
Median Household Income	(-)	(NS)
Percent African-American	(+)	(-)
Percent Latinx	(+)	(+)
Percent Asian/Pacific Islander	(NS)	(-)
Percent Other Race	(+)	(+)
Percent with a Bachelor's Degree	(-)	(+)
Percent Owner-Occupied		(-)
Originations per Owner-Occupied Unit		(-)
Mean Housing Age		(-)
Median Home Value		(-)
Vacancy Rate		(+)

Discussion

- Difficult to track and gauge the scope of the issue given data limitations
- Low-dollar mortgage lending is decreasing, strong negative relationship between mortgage originations and CFD activity
- CFD sales are concentrated in distressed housing markets
- While our results are mixed, 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 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
- Federal regulation
 - CFPB TILA
- Legal aid services to buyers
- Refinancing or conversion to a mortgage
- Need viable lending alternatives

Thanks!

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