

United States Senate  
WASHINGTON, DC 20510

May 23, 2016

The Honorable Richard Cordray  
Director  
Consumer Financial Protection Bureau  
1700 G Street, NW  
Washington, DC 20552

Dear Director Cordray:

We write today to draw your attention to an alarming trend in the housing sector that appears to target low and moderate-income home buyers. This practice, commonly referred to as a contract for deed (CFD) or an installment land contract, involves the home seller holding the legal title to a property as security until full payment is completed. CFDs are often crafted to avoid the Truth In Lending Act and other consumer protections provided to borrowers with traditional mortgages. As a result, CFD borrowers may not fully understand the extent of their obligations, the true cost of the CFD, and in the case of a default, may be at risk of losing all previous payments toward the home as liquidated damages. Because CFDs can lead to increased debt, financial instability, and eviction for hard-working American families, we ask that the Consumer Financial Protection Bureau (the Bureau) examine the use of CFDs and determine how the Bureau may provide consumer protections to cover these transactions.

Unlike a traditional mortgage, a CFD does not include an appraisal to ensure the loan amount is fair or an inspection to inform the buyer of the state of the property prior to the sale.<sup>1</sup> Indeed, sellers often use CFDs to receive a stream of income on rundown properties that would otherwise be not suitable to rent. In many cases, the home buyer is responsible for significant up-front fees and all repair costs for homes in poor condition.<sup>2</sup> Of utmost concern are entities that push these contracts to sell homes – many of which are in disrepair – at inflated prices with very high interest rates, only to then evict families at the first sign of default, pocketing the value of the improvements and repairs made, as well as their monthly installments as profit.<sup>3</sup> In addition to an inability to build equity in their homes and a high risk of default, CFD home buyers also lose out on the opportunity build their credit profiles as sellers typically do not report on-time payments to credit reporting agencies. With no way to build equity or their credit profiles during the course of the contract term, these buyers are left further hampered in their ability to qualify for traditional loans which are frequently needed to cover a balloon payment on a CFD.

We are particularly concerned that these agreements are targeted to the same low-income and minority communities who were victimized by predatory mortgage lending practices and were disproportionately impacted by the foreclosure crisis. In Akron, Ohio, investors in bulk loan sales from the Government Sponsored Enterprises and the Federal Housing Administration are using CFD

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<sup>1</sup> "The Racist Roots of a Way to Sell Homes." *The New York Times*. The New York Times, 28 Apr. 2016. Web. 13 May 2016.

<sup>2</sup> Myslajek, Crystal. "Risks and Realities of the Contract for Deed." *CommunityDividend*. Federal Reserve Bank of Minneapolis, 1 Jan. 2009. Web. 13 May 2016.

<sup>3</sup> Coates, Ta-Nehisi. "The Case for Reparations." *The Atlantic*. Atlantic Media Company, June 2014. Web. 13 May 2016.

to generate income from properties in those sales with little regard to borrower outcomes.<sup>4</sup> The properties included in bulk loan sales are the same properties that were delinquent or in default leading up to and during the housing crisis. The use of CFDs in this context appears to create a cycle of defaults generated by deception.

We were pleased to see reports that the Bureau has taken steps to investigate seller-financed home transactions. Any such efforts must include measures that crack down on unscrupulous and predatory practices, and we ask that you keep us informed of your findings. To that end, we respectfully request that you also examine the specific use of CFD homeowner financing, determine the national prevalence of CFDs, and consider whether regulation or other action in this area is needed.

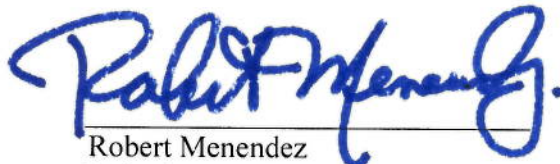
Should the Bureau decide to take action, strong protections must exist both on the front-end and back-end of CFDs – ensuring both that a prospective homeowner is able to maintain their payments and that default processes are not overly onerous or subject to abuse. As the Bureau explores these practices, however, we would also ask you to keep in mind that in certain cases, CFDs with common-sense consumer protections can serve a need in many communities. Currently, there are public and nonprofit housing agencies that have developed methods of working one-on-one with individuals who are at-risk of default, using flexible terms that enable people who hit a rough patch to avoid vicious cycles of unpayable debt. These programs ensure that consumers can take appropriate action to protect themselves and their families.

We look forward to working with the Bureau to ensure that consumers are protected when financing the purchase of a home. Thank you for your attention to this matter. We would appreciate a response by June 17, 2016.

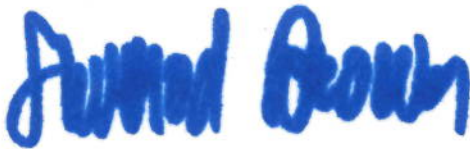
Sincerely,



Richard Blumenthal  
United States Senator



Robert Menendez  
United States Senator



Sherrod Brown  
United States Senator



Jack Reed  
United States Senator

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<sup>4</sup> Goldstein, Matthew, and Alexandra Stevenson. "Market for Fixer-Uppers Traps Low-Income Buyers." *The New York Times*. The New York Times, 20 Feb. 2016. Web. 13 May 2016.



Al Franken  
United States Senator



Jeffrey A. Merkley  
United States Senator



Elizabeth Warren  
United States Senator