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CFPB Takes Action to Stop Contract-for-Deed Investors from Setting Borrowers Up to Fail

CFPB affirms that contracts for deed must comply with longstanding federal mortgage protections

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WASHINGTON, D.C. - The Consumer Financial Protection Bureau (CFPB) today released an [advisory opinion](#) and [research report](#) on a form of home seller financing that is often referred to as contract for deed. Under contract-for-deed deals, the seller agrees to turn over a home's deed only after the buyer completes a series of payments. The deals often have little oversight, and investment groups and other sellers can set a series of traps that leave buyers in unlivable homes, on the hook for tax liens and expensive repairs, and at risk of losing their down payments and homes. The advisory opinion affirms that federal home lending rules and laws cover contracts for deed and provide key consumer protections. The report describes how predatory lenders use contracts for deed to target low-income borrowers, particularly in religious communities, and set them up to fail so the sellers can kick them out and repeat the process with a new family.

The advisory opinion is being released in conjunction with a field hearing the CFPB is holding today in St. Paul, Minnesota. Contract for deed loans have become increasingly prevalent in the Twin Cities' Somali Muslim community. The loans are often marketed as a way for community members to abide by the principles of their faith that prohibit paying or profiting from interest.

"The CFPB has found that investors are targeting people of faith with predatory mortgage products that set the borrower up to fail," said CFPB Director Rohit Chopra. "The government is taking action to ensure that these products do not turn the dream of homeownership into a nightmare."

Contracts for deed - also called "land contracts," "installment land contracts," "land sales contracts," or "bonds for deed" - typically cover the purchase of homes. They are structured such that the seller retains the legal title to a home until the borrower completes all the payments. During the contract term, the borrower often carries the responsibilities of homeownership, including repairs, property taxes, and improvements. In today's report, the CFPB traces the history of contract-for-deed lending. The CFPB has found that these products often target Black, Hispanic, immigrant, and religious communities.

Many lenders using contracts for deed generally sell homes at inflated prices, with high interest rates and balloon payments. The prices can be high because sellers are not competing against banks or other mainstream mortgage lenders, and the homes come without the benefit of inspections associated with mainstream mortgage financing that identify defects in a home. Contract-for-deed sellers often also have no stake in whether borrowers can afford the loan over the long term because they can generally kick buyers out immediately if the buyers miss even a single payment, and then resell the home at an even higher price to the next family.

Many contracts for deed come laden with traps like balloon payments that make it highly unlikely the borrowers will ever get full legal title to their homes. Available data shows that contracts for deed have much higher failure rates than mainstream mortgage loans.

However, while many sellers have abused this financing structure to trick buyers and churn homes, these contracts are in fact covered by the federal Truth in Lending Act. This law imposes certain requirements on larger sellers - often investment groups - such that they must:

- **Assess borrowers' ability to repay loans:** Determining a borrower's ability to repay makes sure they can afford to repay loans, including contracts for deed. Many people who bought homes through contracts for deed - and were kicked out of their homes for missed payments - would have been protected against these predatory products had the seller assessed ability to repay.
- **Provide informative and accurate disclosures:** Sellers must provide the Truth in Lending Act's required disclosures. These disclosures include the annual percentage rate and payment schedules. Predatory lenders will sometimes market contracts for deed to faith communities and lead buyers to believe that the contracts conform to religious bans on interest. However, the loans either do come with high, undisclosed interest rates or the interest rates are hidden through other means.
- **Limit balloon payments:** Many contracts for deed come with interest rates much higher than those commonly charged on traditional mortgages. Under the Truth in Lending Act, when an interest rate on a home loan is higher than certain published benchmarks, additional requirements and consumer protections are activated. One of those important protections is that most balloon payments are banned. Balloon payments can be especially harmful to contract-for-deed borrowers who stand to lose all the money they have previously paid if they cannot afford to pay a large lump sum all at once.

Today's advisory opinion and report are part of the CFPB's efforts to rid the market of predatory and exclusionary home lending practices. The CFPB has taken actions to protect consumers from [redlining](#), [reverse redlining](#), [digital redlining](#), [predatory financing](#), and [zombie mortgages](#). The CFPB also worked with federal partners to [finalize rules](#) to ensure automated valuation models do not engage in digital redlining practices.

[Read Director Chopra's remarks on contracts for deed.](#)

[Read the advisory opinion.](#)

[Read the research report.](#)

[Read today's consumer advisory.](#)

Consumers can submit complaints about financial products or services by visiting the [CFPB's website](#) or by calling [\(855\) 411-CFPB \(2372\)](#).

Employees who believe their company has violated federal consumer financial protection laws are encouraged to send information about what they know to whistleblower@cfpb.gov.

The Consumer Financial Protection Bureau is a 21st century agency that implements and enforces Federal consumer financial law and ensures that markets for consumer financial products are fair, transparent, and competitive. For more information, visit www.consumerfinance.gov.

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