



Consumer protections

Testimony to the House Civil Justice Committee on House Bill 103

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Good afternoon, Chairman Hambley, Ranking Member Brown and members of the committee. My name is Kalitha Williams and I am the project director for asset building at Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. My work centers on household financial stability and consumer protection issues in Ohio. I also convene Ohio CASH, a statewide coalition of organizations focused on improving the financial and economic conditions for low- and moderate-income families and communities in the state. Thank you for the opportunity to testify today regarding House Bill 103, which would implement important consumer protections for land contracts.

The state Ohio first allowed land contracts in the late 1960's. They have been used to help people become homeowners who may otherwise be unable to secure financing for a mortgage. The buyer and seller agree to a purchase price and the buyer agrees to make a series of payments allocated to the purchase price. When the buyer has completed making the agreed payments or paid the full purchase price, the seller transfers the legal title to the buyer. Historically, some communities have faced barriers to credit because of income, race, or credit history. These communities have been more likely to be exploited by predatory land contracts.

With rising complaints about land contract abuses, Ohio needs strong regulations to protect consumers. The 2008 housing crisis flooded the market with foreclosed homes. Investors bought homes at low cost, many of which were in disrepair. These properties were ripe for exploitation, and unscrupulous investors took advantage of prospective homebuyers in states with weak land contracts provisions. In a traditional open housing market, these properties would not pass an inspection and their low appraised values and would not meet the lender's criteria for mortgage financing. If the property was used a rental, expensive repairs would have been necessary to meet local building codes before it could be leased. Under Ohio's current law, as land contracts, these properties could be offered to buyers with no repairs and, at prices, well above their values.

For many Ohio consumers, predatory land contracts turned their dream of homeownership into a nightmare. Our own research found that between 2008 and 2018, there were over 47,000 land contracts recorded in Ohio.¹ After spending thousands of dollars on down payments, monthly payments and repair costs, buyers learned they were stuck in overpriced, uninhabitable properties they could not afford. Some buyers had to vacate their home, despite making their payments, because the seller did not keep up with property taxes or mortgage and the property was foreclosed. Some investors have gone so far as to

¹ "Predatory land contracts strip wealth from communities", Victoria Jackson, July 2018, <https://www.policymattersohio.org/research-policy/pathways-out-of-poverty/consumer-protection-asset-building/predatory-land-contracts-strip-wealth-from-communities>

intentionally churn buyers in and out of properties by finding ways to cancel the contract. With each new buyer, they receive new down payments and benefit from the buyer's sweat equity to the property, all without having to make any repairs to the property. Some buyers sought help from community, faith, and legal organizations. Unfortunately, they learned Ohio's land contract statute permitted these abuses. To quote our researcher "land contracts combine the worst parts of renting a home and the worst parts of buying one".

Ohio cities have taken action against abusive land contract practices and businesses, but state regulation is needed. Local communities began to tackle this problem by instituting ordinances and taking legal actions to protect residents. Toledo, Cincinnati, Cleveland and Youngtown have implemented laws to protect consumers from predatory land contracts. This is not simply a problem in these communities. Our analysis found that nearly every county has recorded land contracts with the highest concentration in Southern Ohio (see attached map). It's likely that communities throughout the state have consumers that have been harmed by land contracts.

House Bill 103 offers a series of important safeguards that will protect consumers from the worst abuses. Rather than have a patchwork of local ordinances, the Ohio General Assembly should take up this work and implement strong safeguards to protect prospective Ohio homebuyers. Last year, we took a closer look at the issue and made a series of recommendations for state regulation, many of which are found in this legislation:

- Before a land contract is executed, the property must be independently inspected, meet local building codes, and remain habitable throughout the life of the contract.
- Before a land contract is executed, the property must receive an independent appraisal that is shared with the buyer.
- Requires that taxes, liens and other encumbrances be paid in full, before the contract is executed.
- Deviation from land contract laws are only permissible when both buyer and seller have their own attorneys.
- Require compliance that land contracts be recorded soon after it is executed.

We ask that you protect Ohio consumers and support House Bill 103. Passing this legislation will provide important safeguards for potential buyers.

Mr. Chairman, thank you for allowing me to testify on this legislation. I am happy to answer any questions that you or any of the other members of the committee may have.