Testimony of
Amy Nelson, Executive Director
Fair Housing Center of Central Indiana
on HB 1495
House Financial Institutions – February 5, 2019

Mr. Chairman, and members of the Committee, my name is Amy Nelson and I am the Executive Director of the Fair Housing Center of Central Indiana (Center). The Center is a nonprofit organization with a mission to ensure equal housing opportunities by eliminating housing discrimination through advocacy, enforcement, education and outreach.

The Center supports passage of HB 1495. This bill is badly needed and we sincerely appreciate the work of the sponsors in the drafting of these needed consumer protections. Legitimate and fair land contracts offer housing options to those often shut out of traditional mortgage or rental markets. However, post foreclosure crisis, we have found the contracts being used here in Indiana to be very one sided without effective consumer protections. Affordable housing needs have caused these transactions to explode in the Midwest with our abundance of vacant and abandoned homes with significant habitability issues and the need by consumers for affordable housing options. The map below shows just the transactions involving national companies[1] and how the Midwest has been overwhelmed with these products.

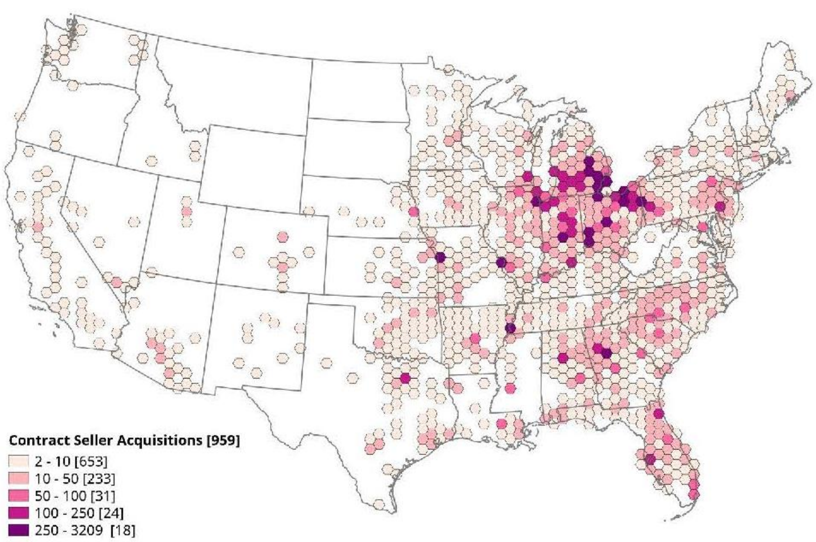

Fig. 1. Acquisitions by national land contract sellers 2007–2016. *Notes:* Numbers indicate feature count. Includes properties purchased by entities listed in Table 1. Excludes hexagons containing just one property.
Source: CoreLogic (2017b).

[1] "Portfolio solutions, bulk sales of bank-owned properties, and the reemergence of racially exploitative land contracts," *Science Direct,* Jan 24 2019.

In a traditional mortgage, both the bank and the homeowner win through a successful transaction. The bank profits off the interest of the loan and the consumer has the opportunity to gain title of a home through monthly payments. In a land contract, the owner of the house acts like the bank. In the situations we have experienced at the Center, these are often companies who are not traditional lenders, nor traditional landlords (when rent to own is attached to the land contract).

Let me explain how these contracts can be harmful. The Center has filed two federal court actions to date challenging Indianapolis based companies and their rent to own and land contract products. The complaints allege that Defendants have structured their contracts to saddle consumers with all of the disadvantages of renting and all of the disadvantages of buying, reserving all the benefits of both for themselves. It alleges that Defendants are fully aware of the terrible condition of their houses, but many of the serious problems cannot be discerned by prospective customers prior to contract. For instance, electricity and water are typically turned off when the consumer views the home. Defendants nonetheless vastly and unjustifiably inflate the sales price by upwards of 300%, 400%, even 500% or more when they sell a house through these programs. Defendants will purchase a rundown house for $10,000, for example, and sell it without any repairs to an unsuspecting victim for $40,000. The complaints allege that Defendants count on customers not knowing the true condition or value of their houses before they sign a contract.

In addition to inflated sales prices, Defendants strip what little wealth their customers have through exorbitant interest rates and high late fees. The complaints allege that consumers sign contracts not just with a false impression of the quality of the house, but also with the false impression that they are entering into a typical house purchase with a typical mortgage. When they struggle to make the necessary repairs to live in their homes, one Defendant offered them shoddy, overpriced repairs that were then incorporated into their monthly payments, again increasing the likelihood that the contracts will fail.

A single missed payment will often result in the consumer being served an eviction notice where they not only lose their deposit, but are also without any protection or recognition of the equity they had put into their homes. The Center has interviewed over 125 consumers about their experiences. Some examples:

1. Consumer made a $5,000 downpayment and has been making $550 monthly payments. Estimates $7,000 in repairs made to the home. Her house was then sold and she was told that none of the money she had paid would transfer to the new owner.
2. Consumer made a $9,000 downpayment and $800 in monthly payments. Estimates $15,000 in repairs made to the home. Contract has a 10% interest rate, had a 140% mark up from the purchase price, and consumer has been refused in efforts to have the contract recorded.
3. Consumer made a $598 downpayment and $299 in monthly payments. Estimates $7,000 in repairs made to the home. Contract has an 18% interest rate. Even after spending thousands on home, was forced to sleep at work because can't afford to pay heating bills during winter months. Lack of insulation caused heating bills to climb into the thousands, and kept his child from being able to stay with him during the winter months.
4. Consumer made a $3,500 downpayment and $500 in monthly payments. Estimates

$15,000 in repairs made to the home. Home was marked up 670% from the purchase price.

The Fair Housing Center of Central Indiana supports this needed bill and urges passage of HB 1495. We would appreciate some minor amendments which we shared with Rep. Clere to further improve the bill and ensure adequate consumer protections, but are overall appreciative of this bill's language. Thank you for your consideration.