

Land Contracts: What You Need To Know

from the Fair Housing Center of Central Indiana (FHCCI)



What is a land contract?

A *land contract*—also known as “contract for deed” or “land installment contract”—is a form of alternative financing to purchase a home. The buyer makes payments directly to the seller/owner through a private contract over a specified period of time.

Is this the same as a mortgage loan?

No. In a traditional mortgage, the buyer immediately obtains title to the home after closing. The buyer gains equity in the home by making payments over time.

In a land contract, the buyer typically does not gain equity or obtain the title or deed to the home until the contract concludes. If the buyer defaults during the contract, they will likely lose the value of their down payment, monthly payments, and any home improvements.

What are the advantages and disadvantages?

Land contracts may provide an alternative path to homeownership for individuals who cannot qualify for a traditional mortgage, such as those with poor credit or no credit history, and undocumented residents.

Land contracts are often not regulated in the same way that traditional mortgages are. As a result, they may contain predatory terms, like high interest rates and fees, prepayment penalties, balloon payments, and back payment of taxes. Unlike mortgage holders, land contract buyers often cannot access home equity to finance major life investments, like college tuition or home repairs.

Like other homebuyers, and unlike renters, land contract buyers are typically responsible for home repairs. However, most contracts do not require an inspection. Land contract homes are usually sold “as-is,” tend to be lower-value, and may require significant repairs to be made habitable. These factors, along with other high-cost features of land contracts, make these homes hard to re-finance.

Most land contracts reviewed by the FHCCI allow the cancellation of the contract and eviction of the resident without notice, if they fall behind on payments before paying off a certain percentage of the contract balance. Land contract buyers rarely, if ever, go through foreclosure, which would provide time for them to catch up on payments and allow court oversight of the process.

Are there alternatives?

Yes. Undocumented homebuyers may be able to use their Individual Tax Identification Number (ITIN) to qualify for an ITIN mortgage loan.

Buyers who have a social security number (SSN) but do not have sufficient credit for a conventional loan may qualify for an FHA mortgage or a private mortgage product from a lender, as well as first-time homeowner loans and grants and special purpose credit programs.

These mortgage products offer more consumer protections in the default-foreclosure process and allow the buyer to build equity during the loan term. Buyers must take care to use a reputable ITIN program to avoid other potentially predatory terms.

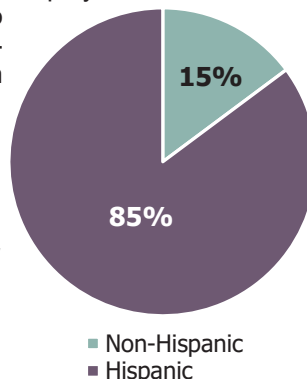
BE ALERT! Some local land contract providers won't tell you they are offering you a land contract. Instead, they refer to their products as “loans” or “financing.” Read the fine print and consult an attorney to know what you're getting into.



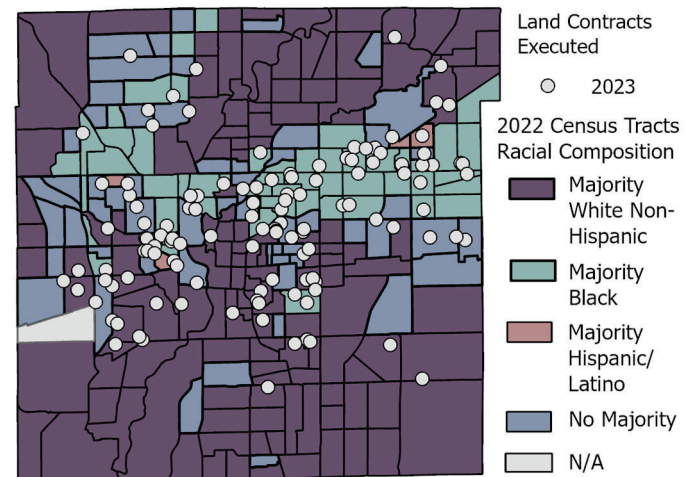
Land Contract Providers May Be Targeting the Hispanic Community in Indianapolis

The FHCCI has observed that land contract companies in Indianapolis appear to be marketing heavily to the Hispanic community, advertising extensively in Spanish, and appearing at community events. They partner with Spanish-speaking real estate agents and employees to build trust with consumers, agents who have a vested interest in a contract execution. However, this can make the buyer vulnerable if they do not receive a truthful explanation and/or translation of the contract in their native language.

Eighty-five percent of land contracts recorded between 2018-2023 in Marion County went to buyers with Hispanic-sounding names per FHCCI analysis.



Most land contracts recorded in Marion County are sited in communities of color.



Sources: U.S. Census American Community Survey, FHCCI analysis of Marion County Recorder's Office data provided by ATTOM Data Solutions.

This information does not constitute legal advice; for legal advice, consult an attorney. © Fair Housing Center of Central Indiana 2024.

Comparison of Products for Those With Limited Credit and/or No SSN

	Traditional Mortgage (FHA)	ITIN Mortgage	Land Contract
Social Security Number (SSN)	Required.	Not required.	Not required.
Interest rates (compared to average mortgage rate)	Slightly higher interest rates (on average, within 1%).	Moderately higher interest rates (varies by lender).	Higher interest rates are common (on median, 5% above).
Down payment	As low as 3.5% but outside programs may allow for lower amounts.	Varies.	Varies.
Equity	Buyer builds equity by making monthly payments.	Buyer builds equity by making monthly payments.	Buyer does not typically gain equity in home until after contract is complete.
Titling	Buyer gets title at closing.	Buyer gets title at closing.	Buyer does not get title until contract is complete.
Liens	Buyer can take out liens on home such as home equity line of credit, home improvement loans, etc.	Buyer can take out liens on home such as home equity line of credit, home improvement loans, etc.	Most often, buyer <u>cannot</u> take out liens on home without seller approval. Seller <u>can</u> take out liens on home without buyer approval.
Home inspection	Required before closing.	Required before closing.	Usually not required.
Home appraisal	Required before closing.	Required before closing.	Usually not required.
Default terms	Must go through foreclosure. Buyer often has time to catch up on payments. After foreclosure sale, buyer can recoup remaining equity.	Must go through foreclosure. Buyer often has time to catch up on payments. After foreclosure sale, buyer can recoup remaining equity.	May result in immediate contract cancellation and eviction. Buyer loses value of past payments and any home improvements.

BE ALERT! While ITIN mortgages offer concrete protections and advantages over land contracts, predatory ITIN lenders do exist. Make sure to choose a reputable ITIN lender. To help you understand your loan terms, contact a free HUD housing counselor: [hud.gov/](https://www.hud.gov/)



Learn more in our full-length report: “Land Contracts: The Promise and Perils of Alternative Home Financing,” available at fhcci.org/reports

If you have general questions, are experiencing housing discrimination, or have issues with a land contract, please contact the Fair Housing Center of Central Indiana.


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