

Developing Protections for Rent-to-Own Homebuyers in Your Community



A stronger Illinois begins at home

Webinar Offered by
Housing Action Illinois
April 16, 2019

Webinar Goals

- Provide overview of Illinois' Installment Sales Contract Act
- Discuss how we developed and advocated for this law
- Share action steps to find out if predatory rent-to-own contracts are an issue in your community
- Provide tools you can use to develop your own advocacy campaign

What Does “Rent –to-Own” Homeownership Mean?

- “Rent-to-own” housing opportunities (a.k.a. contracts for deed or real estate installment contracts) promise homeownership to people who generally are not in a financial position to buy a home though securing a mortgage.
- While rent-to-own can be an understandable choice for buyers under certain circumstances, rent-to-own contracts are only minimally regulated under most state laws.
- Some sellers of rent-to-own homes have a business model based on predatory practices that churn a series of consumers through unsustainable agreements that quickly lead to default.

Why are Consumer Protections Needed?

- Agreements are sometimes oral, without any written contract.
- Buyer responsibilities—such as paying property taxes and making repairs—are often unclear.
- Contracts are often structured with hidden interest and balloon payments due from the buyer.
- Homebuyers can make significant cash investments in a home but then not be provided protections under foreclosure law in case of default. Contracts are often structured to avoid providing buyers with these protections.
- This webinar will go into detail about the Illinois state law that went to effect on January 1, 2018 to address these issues.

Illinois Installment Sales Contract Act Provisions

- Creation of Installment Sales Contract Act regulating sellers of 1-4 unit residential properties who enter into contracts more than 3 times in any 12-month period.
- Requires a written contract for these sales that must include certain information, including any balloon payments due on the property and defining who is responsible for repairs, taxes and insurance. Buyers are generally responsible for these items, but that that may not be clear to the purchaser.
- Requires the buyer to receive an amortization schedule prior to closing, so they understand how much of their monthly payment will be applied to principal and interest and how long it will take to pay off the loan.

Illinois Installment Sales Contract Act Provisions

- Requires disclosure of building code violations and fair cash value, as reflected on tax bills, so that prospective buyers have some sense of the condition and value of the home.
- Creates a 3-day “cooling off period” after the seller has presented the contract to the buyer in its full and final form. During this time, parties cannot be bound to sign the contract and can review an educational disclosure document provided by the seller and prepared by Office of the Attorney General that will describe issues to consider, such as having the property appraised and inspected, before signing the contract.
- Mandates the seller create a public record of the sale to protect the buyer’s ability to obtain a clear title to the home.

Illinois Installment Sales Contract Act Provisions

- Expands foreclosure protections for people entering into installment sales contracts by eliminating the current requirement under state law that contracts be five years in length to require a foreclosure, as opposed to an eviction, in the case of default on the contract.
- Leaves in place the existing requirement that 20 percent of the contract be paid to require a foreclosure proceeding.
- Note: Prior to passage of our state law, predatory sellers could structure contracts so that they are just shorter than five years to avoid ever having to go through the foreclosure process, even if the buyer has paid much more than 20 percent of the contract, and just evict the buyer as if they are a renter. The eviction procedure is generally much quicker and less expensive for seller, but offers far fewer legal protections for the buyer.

Illinois Installment Sales Contract Act Provisions

- Allows buyers 90 days to cure defaults before the seller can try to evict them if the buyer misses a payment.
- Bans certain predatory loan terms, such as putting the buyer in default of the contract for failure to repair preexisting conditions and penalties for prepaying the loan.
- Read the entire state law: (765 ILCS 67/) Installment Sales Contract Act.
 - <http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=3813&ChapterID=62>

Developing and Advocating for this Law

- Initial Steps:
 - Hearing from our members and allies that there was a resurgence in predatory rent-to-own contracts.
 - Talking to more people to confirm this was actually the case.
 - Understanding how current practices were similar and/or different from past practices.

We Recommend: [Empty schools, empty promises](#) [Interactive tool: Monitor Chicago's police reforms](#) [Voting could soon b](#)

CHICAGO FREEDOM MOVEMENT 50

Inside the Contract Buyers League's fight against housing discrimination

By  [Mary Lou Finley](#) | February 15, 2016

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Photo by Sophia Nahli Allison

Clyde Ross "bought" his North Lawndale home on contract in 1961. He was able to keep it after joining the Contract Buyers League, which fought for legitimate mortgages by staging a payment strike.

SUNDAY BOOK REVIEW

Ploys in the Hood

Excerpt from Book Review

By [RAYMOND ARSENAULT](#) MARCH 19, 2009

The final chapters focus on the widening reform efforts of the late '60s and early '70s, especially the protests organized by the Lawndale-based Contract Buyers League, a grass-roots organization that helped to expose the F.H.A.'s instrumental role in redlining. The league initiated two landmark federal lawsuits, and in 1972 the formation of a broad coalition of housing activists known as National People's Action set the stage for meaningful reform at the national level. In 1975, Congress passed the Home Mortgage Disclosure Act, and two years later it followed up with the Community Reinvestment Act. Together these laws eliminated some redlining and made life more difficult for predatory speculators, though, as Satter points out, neither measure offered a definitive solution to the problem of racially discriminatory credit practices.

As the continuing subprime mortgage crisis demonstrates all too well, the long-term effects of what happened in Lawndale and other black communities a half-century ago are still very much with us. Today we have too many mortgages rather than too few. But the underlying realities of a nation plagued by chronic debt and persistent racial inequality remain the same. A cautionary tale of governmental complicity, "Family Properties" follows the social historian's dictum of "asking big questions in small places." It reminds us that history and memory are essential tools for anyone pondering our current predicament.

FAMILY PROPERTIES

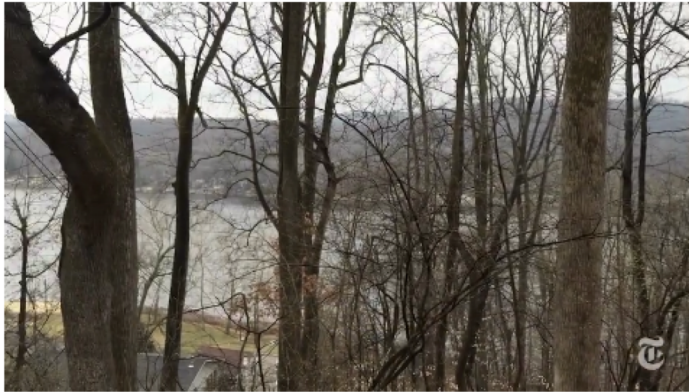
Race, Real Estate, and the Exploitation of Black Urban America

By [Beryl Satter](#)

Illustrated. 495 pp. Metropolitan Books/Henry Holt & Company. \$30

DealBook / Business & Policy

Rent-to-Own Homes: A Win-Win for Landlords, a Risk for Struggling Tenants



When reporters visited a major player in the rent-to-buy market, they found intense efforts at corporate polish. It was a strong contrast with the complaints leveled by hopeful homeowners.

By Alexandra Stevenson and Matthew Goldstein

Aug. 21, 2016



COLUMBIA, S.C. — Alex Szkaradek is a landlord who seems to have the best of both worlds.

Mr. Szkaradek, 36, collects rent, but he never has to pay for repairs on any of the more than 5,500 homes — many of them rundown — that his firm manages across the country.

The firm, Vision Property Management, blurs the line between what it means to be a renter and a homeowner. These companies do not offer regular leases or mortgages — they offer “rent to own” contracts on homes that require tenants to make all repairs, no matter how big or small.

Opinion

EDITORIAL

Housing That Ruins Your Finances and Your Health

By The Editorial Board

Jan. 2, 2017



A dilapidated home in Baltimore. Al Drago/The New York Times

Of the nearly one million foreclosed houses sold by Fannie Mae, the government-run mortgage giant, since the housing bust, tens of thousands were decrepit, moldy and unfit for human habitation.

Investor groups rounded them up anyway and turned them into cash cows by using “rent-to-own” leases or “contracts for deed.” These arrangements, which are basically long-term, high-interest installment contracts, require a resident to make an upfront, nonrefundable payment upon moving in and then make monthly payments to the investors. The resident is also responsible for all repairs.

The deals are pitched as a way for the resident to eventually own a home, but most occupants, who are typically poor people of color, are forced to walk away with nothing as the costs become unmanageable. When that happens, the investors, who generally paid less than \$10,000 for each house, enter into new deals with new occupants.

Example Testimony in Support of Our Legislation

Testimony in Support of SB 885: Consumer Protections for “Rent-to-Own” Home Purchases

by Beth Beck-Marts, Shelby County Outreach Coordinator, C.E.F.S. Economic Opportunity Corporation
2/2/17

In ten years, I have never experienced a client that has achieved home ownership by a contract for deed arrangement and only a couple situations that I would not deem predatory. It has been my experience that these contracts are given to low income individuals with credit barriers that do not wish to invest a couple years in becoming credit ready for a conventional mortgage. In the majority of the cases I have seen, the seller has used this to exploit the buyers.

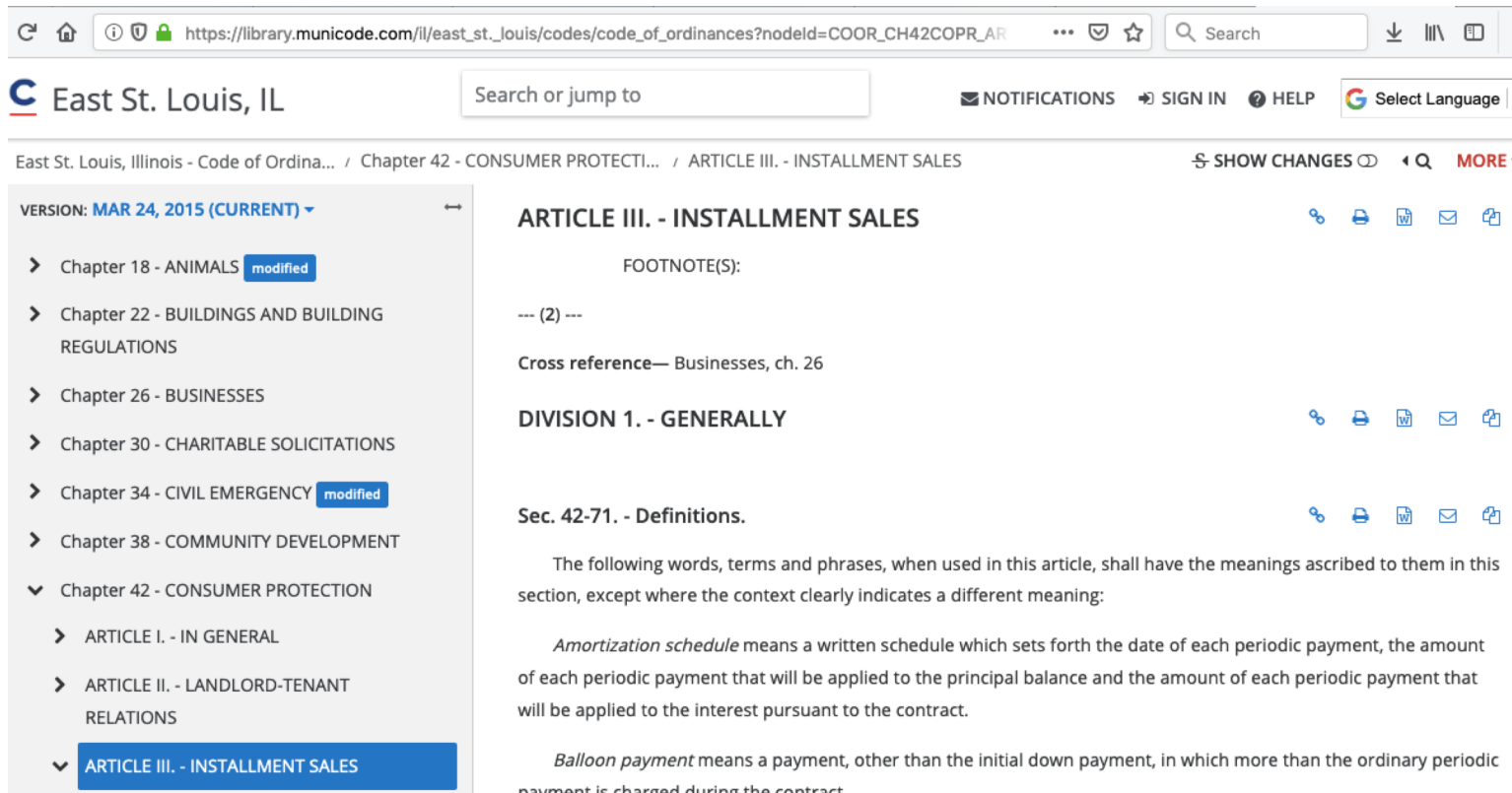
In most instances, there has not been a written contract. In these cases, when the buyer falls behind in payments, the landlord is following standard eviction procedure for rental situations regardless of what the buyer has invested in the property to date.

I have seen numerous situations in which the client pays a monthly payment the same as the property was renting for, but the buyer also pays taxes and insurance. The buyer is more often than not responsible for all repairs, too, and these repairs can be costly to the buyer as the homes often offered in these contracts are substandard housing with maintenance issues.

Illinois can do so much more to protect its vulnerable citizens from predatory rent-to-own situations.

Developing and Advocating for this Law

- Researching our existing state law and other state laws.



The screenshot shows a web browser displaying the East St. Louis, IL Code of Ordinances. The URL is https://library.municode.com/il/east_st_louis/codes/code_of_ordinances?nodeId=COOR_CH42COPR_AR. The page title is "East St. Louis, IL". The breadcrumb trail is "East St. Louis, Illinois - Code of Ordinances / Chapter 42 - CONSUMER PROTECTION / ARTICLE III. - INSTALLMENT SALES". The version is "MAR 24, 2015 (CURRENT)". The left sidebar shows a tree view of chapters and articles, with "ARTICLE III. - INSTALLMENT SALES" selected. The main content area displays "ARTICLE III. - INSTALLMENT SALES" with a "FOOTNOTE(S):" section containing "(2)". Below this is a "Cross reference— Businesses, ch. 26" and "DIVISION 1. - GENERALLY". Under "Sec. 42-71. - Definitions.", it states: "The following words, terms and phrases, when used in this article, shall have the meanings ascribed to them in this section, except where the context clearly indicates a different meaning:" followed by definitions for "Amortization schedule" and "Balloon payment".



TOXIC TRANSACTIONS

How Land Installment Contracts Once Again
Threaten Communities of Color

July 2016

By

Jeremiah Battle, Jr., Sarah Mancini,
Margot Saunders, and Odette Williamson
National Consumer Law Center®

Developing and Advocating for this Law

- Drafting a new state law.

100TH GENERAL ASSEMBLY
State of Illinois
2017 and 2018
SB0885

Introduced 2/7/2017, by Sen. David Koehler

SYNOPSIS AS INTRODUCED:

New Act	
735 ILCS 5/15-1106	from Ch. 110, par. 15-1106
765 ILCS 70/Act rep.	
765 ILCS 75/Act rep.	
765 ILCS 605/18	from Ch. 30, par. 318
765 ILCS 605/18.5	from Ch. 30, par. 318.5

Repeals the Dwelling Structure Contract Act and the Dwelling Unit Installment Contract Act. Creates the Installment Sales Contract Act. Adds provisions governing: definitions; terms and conditions of installment sales contracts; applicability of other Acts; sales of condemned dwelling structures; repairs; account statements; transfer of payments; insurance proceeds; unlawful acts; waivers; and penalties. Makes corresponding changes in the Condominium Property Act. Amends the Code of Civil Procedure. Provides that a real estate installment contract for residential real estate is subject to the foreclosure provisions of the Code if the purchase price is to be paid in installments over a period in excess of one year (instead of 5 years) and the amount unpaid under the terms of the contract at the time of the filing of the foreclosure complaint, including principal and due and unpaid interest, at the rate prior to default, is less than 90% (instead of 80%) of the original purchase price of the real estate as stated in the contract. Effective January 1, 2018.

Developing and Advocating for this Law

- Developing support materials.

SUPPORT SB 885: Protect Rent-to-Own Homebuyers (Gordon-Booth–Halpin–Ammons–Ford–McDermed, and Welch)

Consumer Protections for “Rent-to-Own” Home Purchases

In the aftermath of the foreclosure crisis, there has been a resurgence in “rent-to-own” housing opportunities (a.k.a. contracts for deed or real estate installment contracts) promising homeownership to people who generally are not in a financial position to buy a home though securing a mortgage.

While rent-to-own can be an understandable choice for buyers under certain circumstances, **rent-to-own contracts are only minimally regulated under Illinois law and prone to contain misleading and/or unfair terms and conditions.** Even worse, some sellers of rent-to-own homes have a business model based on predatory practices that churn a series of consumers through unsustainable agreements that quickly lead to default.

Survey Shows Homebuyers Have Limited Understanding of “Rent-to-Own” Terms

In a survey of housing counselors around the state conducted by Housing Action Illinois, only **12%** of counselors reported that people considering rent-to-own homeownership opportunities well understood the differences between rent-to-own and homeownership with a mortgage.

Developing and Advocating for this Law

- Securing a legislator to be our chief sponsor and requesting co-sponsors.

Bill Status of SB0885 *100th General Assembly*

[Full Text](#) [Votes](#) [Witness Slips](#) [View All Actions](#) [Printer-Friendly Version](#)

Short Description: INSTALLMENT SALES CONTRACTS

Senate Sponsors

Sen. [David Koehler](#) - [Jacqueline Y. Collins](#) - [Iris Y. Martinez](#) - [James F. Clayborne, Jr.](#) - [Kimberly A. Lightford](#), [Bill Cunningham](#), [Cristina Castro](#), [Melinda Bush](#), [Linda Holmes](#), [Mattie Hunter](#) and [Ira I. Silverstein](#)

House Sponsors

(Rep. [Jehan Gordon-Booth](#) - [Michael Halpin](#) - [Carol Ammons](#) - [La Shawn K. Ford](#) - [Margo McDermed](#), [Emanuel Chris Welch](#), [Al Riley](#), [Michelle Mussman](#), [Barbara Flynn Currie](#), [LaToya Greenwood](#), [Camille Y. Lilly](#) and [Marcus C. Evans, Jr.](#))

Developing and Advocating for this Law

- Developing endorsers, supporters and key allies, such as:
 - Office of the Attorney General
 - Chicago Coalition for the Homeless
 - Chicago Urban League
 - Cook County Recorder of Deeds
 - Contract Buyers League USA
 - Illinois PIRG
 - Navicore Solutions
 - Woodstock Institute

Developing and Advocating for this Law

- Getting media coverage and making use of existing coverage.

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NEWS & POLITICS | FEATURE

March 01, 2017

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REPRINTS

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The infamous practice of contract selling is back in Chicago

Wall Street-backed firms are duping would-be homebuyers, 50 years after Martin Luther King Jr. and west-side activists fought against housing discrimination.

By Rebecca Burns [@rejburns](#)

Excerpt from Chicago Sun-Time Editorial, March 3, 2017:
Jim Crow home-buying scheme comes back to haunt
Companies that sell houses on contract defend the practice as a way to offer a chance of home ownership to people with sketchy credit in the wake of the 2008 mortgage crisis. The “majority of our buyers have benefited so much more than had they been forced to remain renters for life,” a representative for one company told reporter Rebecca Burns, who conducted her investigation for The Chicago Reader and the Investigative Fund.


That might be a terrific defense if most or even a large majority of contract home buyers actually managed, at the end of the day, to pay off their loans and obtain the deeds to their homes. But historically, that happened almost never.

A bill that includes a number of the reforms we have suggested here, sponsored by Peoria Democrat David Koehler, is pending in the state Senate. It likely will be revised before any vote later this month.

As written so far, we can’t imagine why contract sellers would object to it. Not if they are committed to running an ethical business.


Developing and Advocating for this Law


- Lobbying the legislation among General Assembly members.

 Judiciary Hearing Details

: * Changed *

Scheduled Date: : 4/27/2017 - 11:30 AM
Location: : 400 - Capitol - - Springfield, IL
Posting Date: : 4/26/2017 - 6:47 PM

 SB885 - SFA1: Recommend Do Adopt

 [Witness Slips - Printer Friendly](#)

Proponent: 46 Opponent: 3 No Position: 0 Vote Details: Result - Passed

Name	Firm, Business Or Agency	Representing	Testimony
Bob Palmer	Housing Action Illinois	Housing Action Illinois	Oral
Caitlin Groh	Illinois Attorney General's Office	Illinois Attorney General's Office	Record Of Appearance Only
Rachel Lyons	Self	Self	Record Of Appearance Only
Henoch Derbew	LUC	Self	Record Of Appearance Only
melvin cox	self	self	Record Of Appearance Only
Christopher Grady	L.D. Redmer Screw Products, Inc.	L.D. Redmer Screw Products, Inc.	Record Of Appearance Only
Abraham Scarr	Illinois PIRG	Illinois PIRG	Record Of Appearance Only

Developing and Advocating for this Law

- Addressing opposition and negotiating amendments.

Full Text of SB0885 *100th General Assembly*

[Introduced](#) [Engrossed](#) [Enrolled](#)

[Senate Amendment 001](#) [House Amendment 001](#) [House Amendment 002](#)

[House Amendment 003](#)

[Public Act](#)

[Printer-Friendly Version](#) [PDF](#) [Bill Status](#)

Developing and Advocating for this Law

- Moving through the legislative process.

4/27/2017	Senate	Senate Floor Amendment No. 1 Recommend Do Adopt Judiciary ; 008-003-000
4/28/2017	Senate	Rule 2-10 Third Reading Deadline Established As May 31, 2017
5/3/2017	Senate	Recalled to Second Reading
5/3/2017	Senate	Senate Floor Amendment No. 1 Adopted; Koehler
5/3/2017	Senate	Placed on Calendar Order of 3rd Reading
5/3/2017	Senate	Added as Co-Sponsor Sen. Mattie Hunter
5/3/2017	Senate	Added as Co-Sponsor Sen. Ira I. Silverstein
5/3/2017	Senate	Third Reading - Passed; 037-019-000
5/3/2017	House	Arrived in House
5/3/2017	House	Chief House Sponsor Rep. Jehan Gordon-Booth
5/30/2017	House	Third Reading - Short Debate - Passed 115-000-000

After the Bill was Signed into Law

- Educating key stakeholders and the public

Excerpt from Educational Disclosure Required by our State Law



Metropolitan Planning Council

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Calendar Roundtables Think & Drink Annual Luncheon Affiliated Sponsor an event

SOLD OUT! Contract Buying Forum
September 29, 2017, 8:30 to 11:30 a.m.

THIS IS A PAST EVENT

Metropolitan Planning Council
140 S. Dearborn St., Suite 1400
Chicago, IL 60603

Hosted by: Metropolitan Planning Council, Woods Fund Chicago and Polk Bros. Foundation

[Download to calendar](#)



Chicago residents protest discriminatory housing at a demonstration organized by the Contract Buyers League



Important Notice to Buyers

This Important Notice to Buyers was created by the Illinois Attorney General's Office. It contains important information for those who are considering purchasing a home through an installment sales contract (often called a "rent-to-own" contract or a "contract for deed"). The seller must give you this Important Notice to Buyers and a copy of the sales contract at least 3 business days before the closing. During this time period you may choose to cancel the contract without any penalty. If you have any questions about this Notice or if you want to report any instance of consumer fraud, please contact the Illinois Attorney General's Office at 1-800-544-7151.

What is an Installment Sales Contract?

Installment sales contracts that are used to purchase homes and other residential property go by many different names, including: **land contracts, contracts for deed, bond for deed, agreement for deed, rent-to-own, articles of agreement** and more. In these agreements, the seller of the home keeps title of the home until the buyer has made all of the payments contained in the agreement. This arrangement is very different than the typical mortgage transaction.

How is an Installment Sales Contract different than a mortgage?

When a buyer purchases a home using a **mortgage**, the buyer takes a loan from a lender and uses it to pay the seller for the home. **The buyer immediately becomes the owner of the property by acquiring title at the time of the purchase.** The buyer is required to repay the loan to the lender,

After the Bill was Signed into Law

- Educating the key stakeholders and the public Excerpt from Educational Brochure

MAKE AN INFORMED DECISION

For some, a rent-to-own agreement can be a sensible path to homeownership. However, in the aftermath of the foreclosure crisis, there has been a resurgence in predatory rent-to-own contracts that can lead people to buy poor quality houses at inflated prices with contract terms that unfairly favor the seller.

For help making decisions about housing options:

Speak with a HUD-approved housing counselor. Find a nearby counselor by visiting the Illinois Housing Development Authority (IHDA) website and doing a zip code search at bit.ly/2JgNfgv

For legal information and resources:

Visit Illinois Legal Aid Online at illinoislegalaid.org. Cook County Residents can also call LAF at **312-341-1070**

KNOW THE LAW

RENT-TO-OWN CONTRACTS



Legislation aims to tame 'Wild West' nature of land contracts

March 6, 2019 | Marilyn Odendahl

The Installment Sales Contract Act took effect January 2018, so no hard data is available as to its impact. But phone calls to HAI have been slowing, Palmer said, and some stories suggest the law is bringing positive change.

One of those stories comes from Embarras River Basin Agency, Inc., a nonprofit in Greenup, Illinois, that serves low-income residents.

A single mother contacted the agency in late 2018 after receiving notice that she and her children were going to be evicted from a mobile home she was buying on a rent-to-own basis, according to Sandy Deters, home counseling coordinator for ERBA. Only after the family had moved in did they discover broken electrical outlets, a water leak and black mold.

The contract said the management would make any needed repairs in the first 30 days but the company, Deters said, did not abide by those terms. Unable to cover the repair costs herself and worried about her children's health, the mother was facing the possibility of becoming homeless.

ERBA enlisted the help of a pro bono attorney who wrote a letter and cited to the new law. The mother got her deposit back before she moved out and was able to use that money to secure a new place to live.

"I think they do prey on the disadvantaged," Deters said of some rent-to-own sellers. "They don't think the buyers have the resources to be able to fight."•

Action Steps for Your Community

- Talk to interest groups and knowledge parties:
 - Housing counselors
 - Nonprofit legal service providers
 - Foreclosure defense and eviction defense attorneys
 - Attorney General's office
- Research:
 - Your own state and local laws
 - Contract and disclosure requirements
 - Foreclosure and/or eviction process
 - Local real estate listings
 - Attempt to identify known sellers
 - Local property records, e.g., through County Recorder's office
 - Local eviction and foreclosure records, e.g., through Court Clerk's office

Tools to Develop Your Own Advocacy Campaign

- If your organization doesn't have advocacy experience and/or capacity, attempt to develop partnerships with groups that do.
- Consider holding public meeting to educate the public and/or engage impacted households.
- Reach out to advocates in other states and/or national organizations, such as the National Consumer Law Center
- Educate and build relationships with elected officials who might want to partner with you and/or take the lead on this issue.

For More Information



A stronger Illinois begins at home

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Housing Action Illinois

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