

Minnesota Now (MPR) | Minnesota Now Minnesota Now - Report finds Somali Muslim families may be targets for risky home ownership deals 01GJDY2GM5TF8269Y4JGFDPK8K

CATHY WURZER: Buying a house is part of the American dream, right? Some people have a mortgage through a lender. Others through a contract for deed. But this direct transaction between buyer and seller is risky. And a new investigation from ProPublica and Sahan Journal has found that local real estate investors are targeting Somali Muslim families to engage in these risky financial deals.

Jessica Lussenhop is one of the reporters behind the investigation. She's on the line right now. Jessica, welcome.

JESSICA LUSSENHOP: Hi, Cathy. Thanks for having me.

CATHY WURZER: Absolutely. Thanks for being here. Now for folks not familiar with contracts for deed, let's explain that, OK?

JESSICA LUSSENHOP: Yeah, absolutely. So I think most people who buy a house these days are going to do it through a mortgage, a loan from a bank. And a contract for deed is, in a sense, way simpler. It's just a deal directly between a seller and a buyer. There's no bank involved. I think at its most simple, one of my sources explained it to me as folks selling to folks.

And so for example, even some of my colleagues can look back to their own families and say that their parents bought their house from their parents using a contract for deed. It's a parents buying or selling to their adult children. Everybody trusts each other. There's no real reason to get a bank involved. So that's at its simplest what a contract for deed is. Once you start getting these sellers involved who do a lot of these or who are doing them in bulk, that's when things get more complicated.

CATHY WURZER: Let's talk about why Somali families apparently are being targeted. First, do we know how many Somali families have bought houses this way?

JESSICA LUSSENHOP: Nobody really tracks real estate transactions by race or ethnicity. So we're going by what we've been hearing anecdotally from people. So one of our sources in the Somali community told us that based on her conversations with people, it could be dozens, it could be as many as 100 families. We found that in 11 counties, Minnesota's most populous 11 counties, there have been 1,800 contracts for deed signed last year in 2021.

So every year, there are many hundreds of contracts for deed. We don't know exactly how many families from the Somali community are doing them. What we know, again, anecdotally, is that this is a new market, that it's ramped up in the last few years. And to answer your question, the reason why Somali families might be doing this is because many of them are practicing Muslims. And because of the principles of their faith, they won't want to pay or profit from interest. And so that means getting into a conventional loan or getting into a conventional mortgage involves interest, and that's just not compatible with their faith.

CATHY WURZER: All right. So as a result, the conventional path is to buying houses not available. That also means that it's really difficult to build generational wealth, right?

JESSICA LUSSENHOP: Yeah, I think that's one of the things about this story that breaks my heart when we start talking about families who've entered into a contract for deed and are now struggling, is because the whole hope here in buying a house is, like you said, generational wealth. Having something to pass on to the next generation, to your kids, and actually getting into one of these. If the family really isn't able to pay it off on time, it actually becomes the greatest threat to that very hope. That you're possibly going to lose all your wealth and then lose a house that you wanted really badly for your family.

CATHY WURZER: So I know you spoke with five Somali homebuyers. They signed contracts for deed. And I understand many of them didn't understand what they were getting into. Tell us about their stories.

JESSICA LUSSENHOP: Yeah. I think unfortunately, one thing that all these stories that we heard had in common was just confusion. I think there's a lot of confusion. When buyers are presented with a contract for deed, it can seem really, really simple on its face. But there are things about little quirks and major disadvantages through a contract for deed that just aren't there in black and white. And you really need somebody to explain it to you and to have-- be going into this with you as a buyer in good faith and really want you to be able to pay off this contract.

And so one of the things that makes these contracts tricky is there's a monthly payment often in the contract. And you may think, OK, if I make that monthly payment every month until the end of the contract, I'll have my house. That's how a mortgage works. But with these contracts, they're often written in a way where that's not true. Actually, by the end of your contract, you'll have a gigantic payment due at the end called the balloon. And that payment can be hundreds of thousands of dollars. And if you don't understand your contract, you really are not going to know that that's coming, and that can just really drive you into default extremely quickly.

CATHY WURZER: But we should say there's nothing illegal going on here. Or is there something illegal going on here? It's predatory. It sounds pretty predatory.

JESSICA LUSSENHOP: As far as we know right now, yeah. Like you said, there's nothing illegal about this. I think there's just a lot of really big red flags going up. Contract for deed, again, is a product that's been around for a long time. And it has a pretty troubling history. Here in Minnesota, in fact, after the housing crash of 2008, there were a lot of problematic contract for deed practices happening in the Twin Cities and in Minnesota. To the point where the Minnesota legislature passed a law to try to curtail some of the questionable practices that were happening and rein in contract for deed sellers and make it not quite so easy to sell them as fast and also not to take advantage of people.

And so what's been interesting about this is I think a lot of the people that we spoke to, when I asked about contract for deed would say, oh, yeah, yeah, that was a problem back in the recession. But we took care of it. And I think based on our reporting, we've seen that this is back, and they're-- there's an argument to be made that there need to be stricter regulations.

CATHY WURZER: So none of the families you spoke to have lost their homes. Is that correct?

JESSICA LUSSENHOP: Yes, that's right. I think we've established that this is a pretty new business practice. These families that we spoke to are pretty early in their contracts. So I don't know that they're at a point yet where they're hitting the wall, hitting those giant balloon payments. But what they've told us is that, again, they really didn't understand what they were getting themselves into. Not only did they not understand how the payment schedule worked.

Again, a big reason why the Somali Muslim community is interested in these financial products is because they were told that they didn't include interest. And the five families that we spoke to actually wound up signing contracts that did have interest. So we have all kinds of questions about how it's possible that they were told one thing, wound up signing another. I just think that it's, again, it's raising a lot of red flags. We're seeing a spike in this kind of activity. It's definitely something that I think regulators should keep their eye out for.

CATHY WURZER: The word "targeting," of course, is a pretty inflammatory term. Are officials saying that the Somali American community is being targeted for these contract for deeds to sign them, to engage them?

JESSICA LUSSENHOP: Honestly, when we were making our phone calls and doing this reporting, everyone we spoke to really hadn't heard that this was going on. This is a pretty new problem. Again, I think that people working with the Somali community specifically on housing issues and on financial advice know that this is going on. But even they had this tentative grasp on what exactly are the practices, how much is this happening?

But they're very, very concerned. And I think what we were able to find out in our investigation shows that there actually is quite a lot to be concerned about and keep an eye out for.

CATHY WURZER: All right. Jessica, I appreciate your time. Thank you so much.

JESSICA LUSSENHOP: Thanks a lot.

CATHY WURZER: Jessica Lussenhop is a reporter for ProPublica based in Minneapolis. Her co-author on this investigation is Joey Peters at Sahan Journal. You can read the full story at propublica.org. It just dropped today.