Creative Financing May Be Coming Back

Following the subprime lending collapse in late 2008, there was a void in financing for low-credit borrowers with little or no down payments. Loans backed by FHA stepped in to fill some of that void, with FHA purchase loans jumping from just 3.3 percent of all purchase loan originations in Q4 2006 to 27.2 percent in Q4 2008.

But FHA loans weren't alone in their resurgence following the fallout of subprime lending. A lesser-known (although long-used) financing instrument called a contract for deed (see definition below) gained traction in the years following the collapse of subprime lenders, particularly for low-value homes in Rust Belt cities like Detroit, Flint, Youngstown and Indianapolis.

New contract-for-deed data collected by ATTOM Data Solutions, curator of the nation's largest synthesized property database, shows the trend.

More than 103,000 contracts-for-deed were recorded nationwide in the five years following the end of the Great Recession (2010 to 2014), a 10 percent increase compared to the previous five years (2005 to 2009).

Some of the counties with above-average increases included Trumbull County/Youngstown, Ohio (136 percent increase); Wayne County/Detroit, Michigan (63 percent increase); Genesee County/Flint, Michigan (53 percent increase); Marion County/Indianapolis, Indiana (46 percent increase); Dane County/Madison, Wisconsin (26 percent increase); and Hamilton County/Cincinnati, Ohio (24 percent increase).

The average sales price for the 2010-to-2014 contracts-for-deed nationwide was $87,010, 38 percent below the average sales price of $141,423 for contracts-for-deed recorded between 2005 and 2009.

Over the same time period, average contract-for-deed prices were down 70 percent in Michigan, down 15 percent in Ohio, down 10 percent in Wisconsin, and down 12 percent in Indiana.