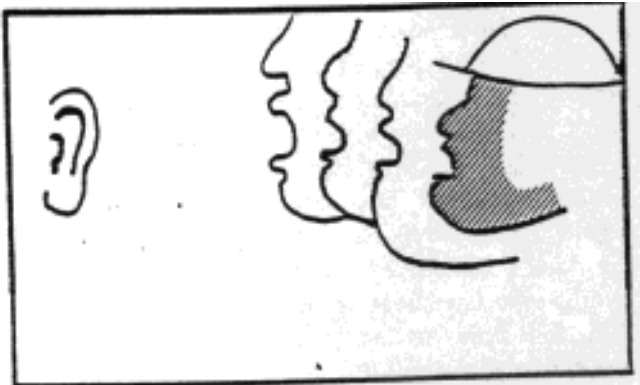


A Case Study: Contract Buyers League

Chapter 10:

Introduction

As Ruth Wells of the Contract Buyers League put it, "The first rule is listening to the people." Property research techniques alone will not uncover the layers of deals that have caused a community to decline or suffer disinvestment. Only the combination of **listening to the people of the community and then using the** research methods to define and uncover the financial wheeling and dealing will bring an organizer to the point or being able to define an issue and develop a strategy to change the situation.



The Contract Buyers League provides a good example of this combination. In Chicago's organizing history the CBL was a forerunner effort in using property research. This effort brought thousands of black families together to fight against real estate speculation.

During the summer of 1967 a group of Jesuit seminarians initiated a Community Organization Project at Presentation Church on Chicago's west side. They began their work by going door to door visiting with the families in the parish; their purpose was to find out what the residents felt were the problems of the community. During that first summer, construction of a play lot and improved garbage collection were two issues that were fought for and won. During the home visits however, the organizers

listened to complaints from residents concerning the real estate practices of speculators in the area. By the following winter, the group had decided that speculation in the sale of real estate would be the main issue of their project.

The organizers decided to research real estate transactions not only in Lawndale but also in other communities that were undergoing rapid racial change. Several hundred buildings were title searched over a period of weeks to determine the extent and ramifications of the real estate practice known as contract buying. After compiling data on individual homes across the city, but concentrating in Lawndale, the researchers uncovered a consistent pattern of profit gouging on the part of real estate speculators in racially changing areas.

'What is Contract Buying?

Contract buying comes in many forms. Generally, compared to the mortgages with which most Americans buy their homes, it is like an "easy-payment" plan. There was a low down payment and the buyer could move into the house immediately but would not have title or equity in the property until the full contract price was paid. Anytime a buyer missed a payment the seller could reclaim the house and evict the buyer. There were generally no "grace" periods on the contracts. Payments had to be made by a specific date or else. Most mortgages have a ten day "grace" period for late payments. In cases uncovered by CBL, contracts prohibited the buyer from obtaining a mortgage and often carried penalty clauses for paying off contracts earlier than the agreed date. The buyer was obliged to pay for insurance, taxes, and all repairs on the property, while the seller usually selected the insurance company and collected all claims for damages to the property. In effect, the contract buyer's rights were as minimal or less than a

renter. Unlike the renter the contract buyer was responsible for repairs, and while a mortgage holder benefits from income tax deductions for owning property,- the contract buyer was not eligible. The actual terms of the contracts were also unfair as illustrated in this example from CBL

Mr. and Mrs. Howell Collins of 3932 W. Congress Parkway purchased *this* property on contract on September 26, 1960 for \$25,000. The speculator had purchased *this* same property *only* three days previously for 374,000 from a white owner-occupant who was selling because the *neighborhood* was changing from white to black. The contract *which* Mr. and Mrs. Collins signed called for a down payment of \$5,500 and the balance to be paid over 19 years at a rate of 7% interest, the maximum allowed under Illinois law in 1960. Their monthly payments are \$226., of which \$190 190 is

At first the organizers thought both black and white families were victims of these speculators. But follow-up appraisals found that the home Mr. and Mrs. Collins bought was valued at \$14,000 according to a private appraisal company.

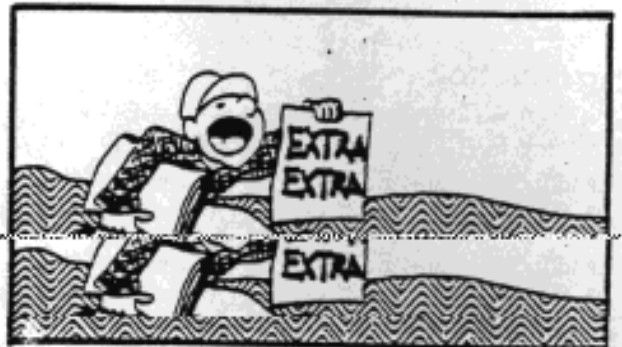
The CBL records further outline the unfairness of these contracts beyond the initial \$10,500 rip-off by the speculator.

Under the terms of the contract. Mr. and Mrs. Collins will pay a total of \$44,820 for their building. Of this \$19,320 is interest. If they had been able to obtain a mortgage for \$15,000 with the same down payment and monthly installments over eleven years they would have paid a total of \$20,740., Of this only \$5,740, 740 is interest. Because of the inflated sales price, these contract purchasers are paying interest on a much greater principal. They are not only being charged an excessive \$10,500 '0,500 on sales price in addition, they pay \$13,349 13,349 in excessive interest charges. In other words, they are paying a "race tax" of \$23,980.. Moreover, it should be noted that they would have made their final payment in October, 1968, if a mortgage and fair price had been available

perfect payment record.

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As it fumed out, the research uncovered the fact that more than half the homes in Lawndale were purchased on contract. When it was clear that contract buying was a widespread practice which financially strapped many families, the organizers felt it was necessary to make the results of their



Getting the Information Out

The sharing of information started first within the Lawndale community: organizers held public meetings and contacted contract buyers individually for interviews and home visits. This was a difficult time in the organizing process. Families, although angry and frustrated with their contracts, were also embarrassed that they had entered into such bad deals. They would talk about it individually to the priests and seminarians from Presentation but wouldn't speak out at the community meetings. Ruth Wells, who later became one of the leaders of the CBL, tells how she finally decided to speak out and the subsequent

"One of the organizers would come by my house before every meeting on Wednesday nights," Mrs. Wells recalls of the early days, "but he wouldn't say anything. So I said to my husband, 'There's something he wants, but he won't say it.' My husband said, 'What do you think it is?' I said, 'He wants one of US to get up and talk.' he said, 'Well, what good would that do?' I said, 'The people don't trust them because they're white. But we're black and we're living it, and I feel sure all these other people might be in the same boat. But they won't say anything. They just sit there and LOOK!' I didn't even know them then," she admits. "I didn't even know my next

volunteered to tell people her *story*. At the next meeting she stood, held on to the back of a chair, and told them about her own contract situation, asked if any or them *was* in the same boat. Immediately practically every *hand* in the room went up with: a question. And that's when the thing got started. "So then I would get up every Wednesday night and I would tell it: "Tell your family and your friends, your neighbors, the people you work with, if they bought on contract they should come out!" "

"Each Wednesday night thereafter we got more and more people. On some nights we didn't even have standing room. That's when I found out that up until a few years ago most of our sisters and brothers, not only in Chicago but in major cities in the United States, bought on contract and were being cheated. I'm not talking about people with eighth grade educations either.

I'm talking about black people with degrees!" 5

From these open meetings in the church hall, The Presentation Organizing Project spun off the Contract Buyers League in early 1968. Its purpose was to educate people about the causes and effects of contract buying practices and renegotiate the estimated 3000 contracts in Lawndale.

The Speculators and Other Culprits

The immediate target of the campaign was the speculators. Title searching plus information from owners identified the companies and individuals who had profited from the contract buying. But there were other, larger culprits responsible for creating the environment for this speculation to flourish in. It was the Federal Housing Authority (FHA) and savings and loan associations that had made it a policy not to give mortgages in neighborhoods like Lawndale. The researchers for CBL found that FHA manuals dating back to the late 30's had policies against giving mortgages in racially mixed or changing neighborhoods. Also, FHA guidelines about the economic life of buildings favored new construction

over existing housing. Local savings and loans followed FHA's lead in using the argument about west side properties being too risky, and frequently accused black homeowners of being bad credit risks, often without even doing credit checks. The contract buying issue brought to the public's attention what the Kerner

Commission later labeled "institutionalized racism."

Early Negotiations and Actions of CBL

Once organized, the CBL members and organizers consulted with lawyers on what they had uncovered in their title searching. After talking to approximately 30 lawyers, it seemed there was no apparent legal remedy since, although the contracts had taken advantage of the black home buyers, they were technically legal and within the laws in Illinois. 6 So the CBL decided that the most direct way to deal with the situation was to contact the speculators and attempt to renegotiate the contracts. CBL first attempted to get them to sit down and renegotiate. The speculators refused, so the CBL prepared to apply pressure through peaceful demonstrations. Picketing of the speculators' offices and homes was undertaken, a tactic which convinced one speculator who held 50 contracts to renegotiate and brought several others to the bargaining table. But the majority held out.

During the summer of 1968, CBL members and staff called attention to their fight by testifying at public hearings in front of the Illinois General Assembly. Articles and editorials in the Chicago newspapers were written to inform people about the injustices and profit-mongering practices of real estate speculators on the west side.

In the fall, the CBL was contacted by a group of black homeowners from the south side who had been following the contract buying issue. They felt that they too had been "ripped off" in their home buying. The south eiders had purchased new homes from Universal Builders, and instead of mortgages they had been offered only contract agreements.

The south side group asked to join CBL in its efforts to renegotiate contracts. The west side agreed and CBL became a coalition of south and west side black homeowners.

After nine months of attempted negotiations and demonstrations the CBL membership decided more serious action had to be taken to force the speculators to the bargaining table. They decided, beginning on December 1, 1968, to withhold their contract payments. An escrow account was set up and families put their contract payments into it until more speculators agreed to negotiate. In the first month 327 families withheld their payments, in the second month, 595. Within three months, the account held over a quarter of a million dollars.'



CBL Goes To Court

When the withholding of payments was underway it was decided after much discussion to file lawsuits in the Federal courts. Two were filed, one for the west side owners and one for the south side owners. Both charged that the contract buyers' civil rights had been violated because they were prevented from having the same rights as whites to purchase and hold real property.

Later that year the judge ruled that each case be heard as a class action suit, covering all contract purchasers who had bought homes from the named defendants, the speculators, in the case. This complicated the whole matter and lengthened the already long process of "discovery," (the legal word for research) necessary to present the case. Research involved analyzing a random sample from among 3000 contract agreements. The sample ended up amounting to 475 properties which had to be title searched for the presentation or arguments and evidence.

The court cases intensified the property research work of the CBL. Previously, title searching had involved finding the entry for the transfer or deed and mortgage to the speculator before he turned it over to

a black family on contract. Most of the contracts were not recorded in the county offices. The organizers would have to check their information from the Recorder's office with the families by going door to door. Unique to this case was the necessary combination of research and organizing to uncover the facts. The court case built on the original approach and also gave the lawyers additional legal powers to subpoena records from the speculators and thus build a stronger case of discrimination and profiteering.

Once the court cases were filed, CBL members debated whether they should resume making their monthly payments. In April they decided to do so in order to show good faith in their efforts to renegotiate their contracts. This was a difficult decision for many reasons. Several of the speculators had expressed willingness to renegotiate contracts due to the withholding of payments, and the court cases were not an immediate answer to the financial hardship families faced making the high payments month after month.

Then, after a discussion of many months, the CBL membership recognized the lawsuit as important but insufficient for "achieving justice," their lawyers warning them that the lawsuit was a long process which could take 5-10 years to resolve. The League had been worried that the judge would consider the withholding of payments a defiance of the court order. But in June, despite the protests of the speculators, he ruled that he had no power to order buyers to make payments, advising the speculators that they would have to bring action in state court under the Forcible Entry and Detainer Act. So once again, in July, the CBL decided to stop making payments on their homes.

When this happened, the speculators began to bring action against the buyers as the judge had advised them to do. The CBL then decided to challenge the constitutionality of the Forcible Entry and Detainer Act in the state courts. The law denied the contract buyer the right to raise defenses in a forcible entry (eviction) proceeding. He or she could appeal the proceeding but to do so would have to post an unusually high bond, usually the amount of delinquent payments plus a year's payments and court costs and attorney's fees. For many of the contract buyers the bond ended up being around \$5,000. A bond fund was raised but it wouldn't cover everyone so it was decided not to use the money at all.

By the end of September 1969, 261 of the 552

families withholding payments had eviction proceedings against them. Although the lawyers, or the CBL could not get the appeal bands lowered or raise defenses in the initial cases, they did get extensions on the evictions. The court agreed that no evictions would take place before the Christmas holidays. But on December 11 there was a surprise eviction on the south side. As fast as the sheriff's police could move the belongings out, the neighbors moved them back in. The evictions and threats of evictions continued. The sheriff used 200 deputies to evict one family, but they moved back in 30 minutes later. The sheriff gave up for a few months, but at the end of March carefully planned the eviction of an entire block on the south side. They cordoned off the area for blocks and placed guards and special police hired by the speculators on 24 hour duty.

After this successful eviction of 21 families, CBL decided a new strategy was needed. Five hundred members went down to City Hall to ask Mayor Daley to halt the evictions. He agreed to intervene, but negotiated an agreement that, while ending the evictions, also ended the withholding of payments. The judge hearing the Federal case also changed his position and said he would dismiss anyone from the lawsuit who continued to withhold payments. The CBL members agreed to stay with the court case because they still hoped that the continued pressure would force the speculators to renegotiate the contracts.

On April 5, 1970 CBL won a legal victory over the Forcible Entry and Detainer law. The Illinois Supreme Court decided that a buyer had a right to raise defenses against an eviction. But although this victory was significant, it did not help out the CBL members who were now forced to continue paying off their contracts until the case was decided.

While the federal case proceeded to be researched and prepared, negotiations with the speculators continued. Banks were lined up to provide mortgages at current interest rates once the new terms were worked out. By September, 1970, one hundred contracts were renegotiated.

The southside case went to trial in April of 1972 before Judge Samuel Perry with a jury sitting. At the close of the lawyers' presentation of the evidence, Judge Perry handed down a direct verdict against the plaintiffs saying that they had not proved a prima facie case of discrimination. He dismissed the jury. The decision was immediately appealed. The appeal was argued before the 7th Circuit Court in October or that

same year, but the court's decision was not released until June, 1971. The Circuit Court reversed Judge Perry's decision and sent the case back to the district court for a new trial.

In the meantime, the westside case went to trial before Judge McGarr in the Spring of 1976. The jury decided the case in November of 1979. They agreed that the speculators had taken advantage of the buyers for higher profits but felt that the speculators were so ruthless they would have cheated anyone, not only blacks, as the lawyers for CBL had argued in the case. The plaintiffs' lawyers decided not to appeal this decision.

The retrial of the southside case took place in November and December of 1979 before Judge Bua as a bench trial (no jury). The southside case was also decided unfavorably and was appealed to the Circuit Court in 1981. The Circuit Court affirmed Judge Bua's decision; however another appeal is still being considered.

Despite the losses in the legal arena over the years, 300 contracts were finally renegotiated with a savings of \$13,000 to each family and \$17 million overall. What started as a small research project in a west side parish in Chicago became one of the hardest fought battles for fair real estate practices in the history of the country.