

Community Land Trust

Leasehold Mortgage Financing

(c) Burlington Associates in Community Development

Community Land Trust Leasehold Mortgage Financing

- CLT retains ownership of land and leases its use to buyer/owner of home
- CLT's fee interest in land is not part of collateral for homebuyer's mortgage loan - i.e., mortgage is not fee simple
- Homebuyer's mortgage is secured by value of improvements and value of leasehold interest in the land - i.e., leasehold mortgage

Leasehold Mortgages Homeowner's Concerns

- Homebuyer's access to favorable mortgage financing at purchase
- Favorable mortgage financing for buyer(s) upon resale of home
- Ability to access/borrow against the equity that is belongs to them

Leasehold Mortgages Lender's Concerns

- Security for the loan (collateral)
- Term of lease significantly longer than term of mortgage
- What are lender's protections?
- What happens in event of foreclosure?

Leasehold Mortgages CLT's Concerns

- Protection of homeowner
- Control of land and protection of long-term affordability
- Non-negotiable right to approve all mortgage financing
- Ability to cure default and, if necessary, stall foreclosure process

What do CLT Leasehold Mortgages Offer to Lenders?

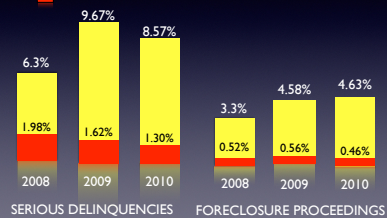
- Favorable LTV ratios
- Active, engaged presence & involvement of CLT
- Removal of 'encumbrances' in event of foreclosure or deed-in-lieu
- Community benefit (CRA compliance)

Challenges with CLT Homebuyer Mortgage Financing

- Governmental liens
- Too few banks providing leasehold mortgages
- Difficulties with accurate appraisals
- CLTs don't always understand and communicate 'deal' well enough
- Limited up-to-date performance data

CLT LEASEHOLD FINANCING MORTGAGE PERFORMANCE

■ Total Loans (per MBA)
■ CLT Loans



National Mortgage Institutions

Fannie Mae

Fannie Mae Community Land Trust Option

- Uniform Rider modifies 'model' ground lease document to FNMA's satisfaction
- Because resale restrictions do NOT survive foreclosure, LTV (Loan-to-Value) is based on leasehold value
 - more favorable terms
 - no PMI required (if CLT contribution >80% of leasehold value)

Fannie Mae

- Critical issues to be resolved
 - Requirement of "at least two years experience in successfully managing affordable housing"
 - Responsibility for 'underwriting' CLT's capacity - and ground lease - is passed along to local lender

Fannie Mae

- Critical issues to be resolved
 - 'Governmental lien' issue remains unresolved
 - 3rd-party notifications of default are allowed - but mechanism is not in place
 - No Desktop Underwriter - i.e., CLT mortgages need to be manually underwritten.

FHA

FHA

- Critical issues to be resolved
 - Two-year experience
 - Resale formula definition
 - Following foreclosure, CLT must - within 5 years - permit FHA (or its assigns) fee simple title.
 - Assurance by FHA Commissioner to allow one-year waiver to allow time for clarifying rules to allow for FHA-insured CLT leasehold mortgages

Rural Development

Rural Development

- Has Community Land Trust loan program.
- Has specific FHA-like regulations re: resale formula, etc.
- There has been some (varied) success in state offices approving CLT leasehold mortgages

Questions?
Concerns?
Observations?

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