



COMMUNITY LAND TRUSTS: AN OVERVIEW

Since the Community Land Trust (CLT) model was developed in the 1960s, nearly 300 CLTs have been established in 47 states across the U.S. CLTs are community-based organizations whose missions include permanent stewardship of land for community benefit and perpetual preservation of the affordability of housing on that land. CLTs make it possible for limited-income households to own homes on land that is leased from the CLT through long-term (typically 99-year), renewable ground leases. In a CLT arrangement, the homeowner holds the deed to his or her home but leases the land on which the home sits from the CLT.

Key Components of the Ground Lease

The CLT ground lease is the legally binding agreement that gives the homeowner the right to use of the land on which their home sits. The lease balances the interests of the homeowner with the long-term interests of the CLT and the community in which it operates. There are a number of critical agreements defined by the CLT's ground lease, to include:

- ❑ **99-year term** - The lease is typically for 99 years, providing long-term security and access for the homeowner. The lease is also renewable by the homeowner – or his/her heirs – for an additional 99-year term.
- ❑ **Lease Fee** – The homeowner pays a modest monthly ground lease fee (currently \$30) to GFCLT in exchange for access to and use of the leased premises. The ground lease fee is set well below market value to maintain affordability.
- ❑ **Taxes and Assessments** – The homeowner is responsible for the payment of all real estate taxes on the land and on the Improvements.
- ❑ **Financing** - There is a provision in the lease that describes “permitted mortgages”, which include those from federally regulated institutional lenders. These provisions deal specifically with foreclosure proceedings designed to protect the interest of the lender, the borrower, and the landowner.
- ❑ **CLT's Preemptive Option** – CLT's typically stipulate in the ground lease its preemptive option to purchase the property in the event that the homeowner(s) elects to sell their Improvements (rather than transfer their leasehold interest to a designated heir, although that is possible). Because it is the goal of GFCLT to keep homes in its portfolio, CLTs typically exercise their option to purchase, providing significant benefit to their homeowners.

Resale Formula & Grand Forks Application

The primary difference between the CLT approach and more conventional home ownership is the effort to balance the interests of the homeowner with the community's goals of preserving long-term affordability for future households. In an effort to strike a balance between allowing a fair return for the seller of a home (original CLT buyer) while continuing affordability for future CLT buyers, GFCLT utilizes an appraisal-based resale formula. Through this formula, in addition to their initial investment the owner receives 40% of their owner's share of appreciation. For example, if a GFCLT buyer originally paid \$120,000 for a home initially appraised at \$160,000, their purchase price is 75% of the home's market value. If the appraisal at resale indicates the home has increased to a \$200,000 value, the owner will receive 40% of their 75% share. In this particular situation, that would come out to \$12,000 ($\$40,000 \times .75 \times .4$). As a result,¹ the owner would receive \$132,000 at resale ($\$120,000 + \$12,000$). While this does limit profit upon resale, it also guarantees affordable homes will continue to be available in the community.

¹This document prepared in partnership with Michael Brown of Burlington Associates in Community Development

How Does GFCLT Keep Homes Affordable?

GFCLT has been fortunate to receive land donations from the City of Grand Forks and HUD subsidy in the form of HOME funds, allowing the organization to buy down mortgages by as much as \$60,000. Without these funds or similar resources, GFCLT's work to date would not be possible.

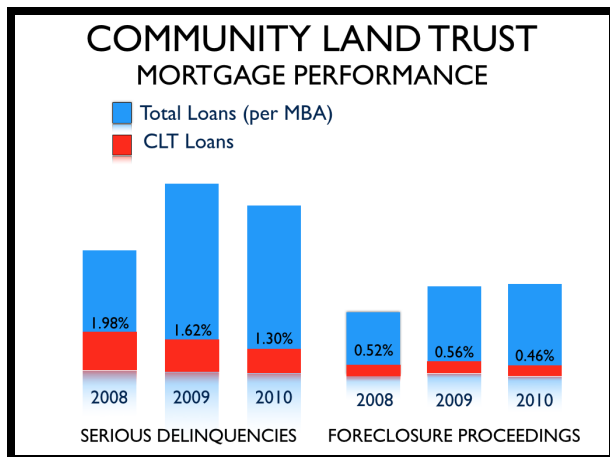
Mortgage Financing for CLT Homebuyers

For mortgage lenders, financing for the purchase of CLT homes involves two factors that are not present in the case of more conventional home mortgage loans:

- 1) The collateral for the loan consists of the Improvements and the leasehold interest in the land, not the fee simple interest in the land; and
- 2) The restrictions on resale and occupancy affect the value of the collateral further.

CLT mortgages must also utilize leasehold mortgages and leasehold appraisals. GFCLT has worked with other lenders in the area and would be happy to provide examples or connect you with CLT-knowledgeable lenders. These factors do not prohibit mortgage financing for CLT homebuyers, although many residential mortgage lenders have little experience in working with the intricacies of loans and appraisals needed for a CLT. For this reason, CLTs have been particularly focused on working with lenders to arrange appropriate mortgage financing for their homebuyers. To date, the majority of North Dakota's CLT loans have gone to the NDHFA. If your financial institution is considering lending to CLT buyers, we highly recommend connecting with an NDHFA representative to discuss variations in requirements for CLT loans.

Though subject to change, NDHFA currently has the following requirements in place for CLT loans in Grand Forks: For buyers earning under 80% of area median income, the family's debt-to-income ratio must not exceed 36%. Additionally, the loan-to-value ratio for the home must not exceed 75% and the housing payment ratio is limited to 25%.



To avoid over-subsidizing, GFCLT will not provide subsidy in an amount that reduces a household's front-end ratio to less than 25% of gross monthly income.

It bears noting that, due to the commitment that CLTs across the country make to stand behind and assist CLT homeowners in their efforts to become and remain successful, the performance of CLT homeowner mortgages is dramatically superior to all other mortgages. For example, according to the Mortgage Bankers Association, the nationwide foreclosure rate for all prime mortgages in 2010 – during the height of the Great Recession - was 4.63%. That same year, the nationwide CLT foreclosure rate was only .46%, or 1/10th of the national foreclosure rate.

Thanks to strict debt and payment ratios, and a close connection with community land trust staff, CLT homebuyers are vetted prior to closing more thoroughly than any other buyers. They must meet all other lender requirements, including credit scores. While their incomes may be lower than most buyers, GFCLT's home prices will create opportunities for homeownership that are affordable to low-income buyers, while ensuring their mortgage payments will be made consistently. Additionally, studies of the success of CLTs in a number of communities have demonstrated that 70% of CLT homebuyers go on to purchase market-rate homes within 7 years, where they continue to be successful homeowners.

How to Get Started

GFCLT is currently looking for lending partners in the Grand Forks area. We would love to meet with you to provide some examples and clarification as your organization considers lending to CLT buyers. To set up an appointment or speak with GFCLT staff, contact:

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