



TRUST MONTANA

## Community Land Trust Primer for Lenders

### Loans for CLT homes are secured by:

- the improvements owned by the home owner; and
- the home owner's leasehold interest in the land.

CLT leasehold mortgages do not encumber the CLT's fee interest in the land. If the mortgage is foreclosed, the resale restrictions will be stripped so the lender can sell the home, but the CLT will not lose the land.

### The ground lease:

- The ground lease must meet state law requirements.
  - A 75-year term is the max in MT.
- The term of the lease is longer than the mortgage term to avoid renewal issues.
- The lease provides the lender and CLT the opportunity to cure before foreclosure.
- In the event of foreclosure, lender lease riders permit lenders to bypass certain restrictions and sell the home to a buyer at market rate to recover lender investments.
- Loan to value ratios for CLT homes include the subsidy that is invested in the home, making PMI-free loans possible for CLT buyers without a 20% down payment.
- Fannie Mae, Freddie Mac and MBOH will purchase loans on CLT properties as long as the CLT meets certain criteria.

Trust Montana is a community land trust dedicated to preserving permanently affordable housing and farmland across Montana

### Basic powers of the ground lease:

- Ensures long term income-eligibility restrictions, restrictions on use as primary residence, and resale restrictions, which:
  - preserve the subsidy over time.
  - keep the home permanently affordable.
  - allow the home owner to earn equity via a resale formula.
- Lease fees and transfer fees strike a balance between keeping home ownership affordable for low-to-median income owners and covering CLT operation costs.
- CLT fee interest in the land is not encumbered by the loans on homes.



## **LENDERS HELP TO ENSURE PERMANENT AFFORDABILITY**

### **Permitted mortgages:**

- CLTs do not allow adjustable rate mortgages or other predatory products to be used for a CLT purchase.
- Any refinancing or subordinated mortgage financing must also be permitted in writing by the CLT.
- The obligations and the rights of a permitted mortgagee are outlined in the permitted mortgages exhibit of the lease. The CLT and the home buyer must agree to the terms of a lease rider to protect the lender's investments. Fannie Mae, Freddie Mac, FHA, and Montana Board of Housing provide specific riders that must be attached to the Lease.

### **Notification requirements:**

- The CLT agrees to notify the lender in the event of a ground lease default. Ideally, the lender gives notice to CLT of monetary default. Each should allow the other party time to cure.

### **Recording requirements:**

- The ground lease and mortgage are executed at closing and reference each other. The notice of ground lease is recorded along with the permitted mortgages exhibit and the lease rider. The full lease is filed with the CLT.
- In the event of financing requiring a trust indenture, the CLT will file a request for notice of sale.