

Homebuyer Initiated Programs for Community Land Trusts in Montana

MT Shared Equity Housing Summit
January 20, 2022

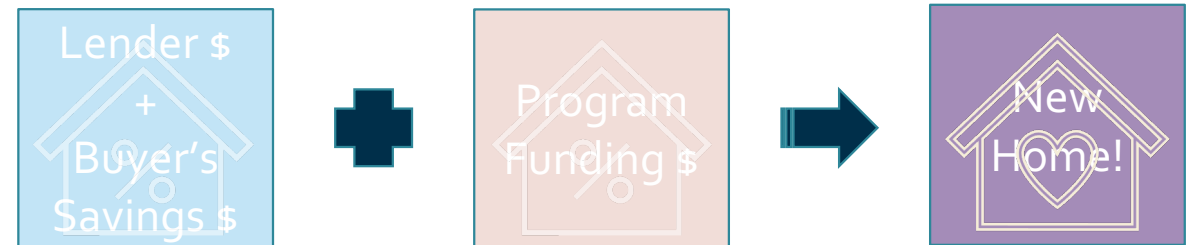
Presented by: Bill Henry, Stewardship Coordinator, Trust Montana



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Buyer Initiated Programs

- Homebuyer gets a lender preapproval and meets with a real estate agent
- Homebuyer applies to the CLT for program funds, to be used towards the total purchase price
- Homebuyers and their agents go house shopping with the guarantee from their own lender and the CLT
- At closing, the land is split from the home and through the ground lease, the home becomes permanently affordable.



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Why Buyer Initiated?

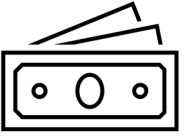
- **COST SAVINGS**
 - New construction can be costly right now due to supply chain disruptions
- **PERMANENTLY AFFORDABLE**
 - The benefit of these programs is that they convert existing housing stock into permanently affordable homes
- **FLEXIBILITY**
 - A developer can sell a newly-constructed home to a program participant
 - Coupling with rehabilitation and sweat equity programs can make a lot of sense



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Program Funding

- MTDOC/HUD



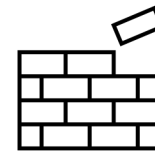
- Private Foundation Grants



- Private fundraising

- Benefits to each

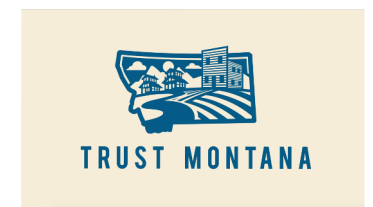
- Stability vs Flexibility



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Process

- Clear Application and Program Criteria for buyers
 - Aligns with HUD rules if using public funding
- Income qualification
 - Good for 6 months
 - Requalify as needed
 - HUD requires final requalification before closing
- Buyer Agreement
 - Between CLT and Buyer/RE Agent
 - Restates all program criteria to receive funding
 - RE agent agrees to share documentation w/ CLT
- Happy Home Hunting!
 - Rely on RE Agent's expertise
 - Remain a silent partner
 - Review Buy/Sell



Process if using HUD Funds

➤ After Buy/Sell is signed, before closing:

➤ HQS/UPCS Inspection

➤ Environmental Assessment

➤ URA Document - signed by sellers

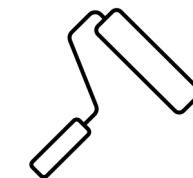
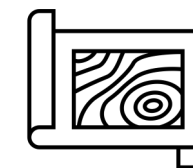
➤ Lead based paint disclosure

➤ Final income qualification (MTDOC)

➤ Final lender underwriting 1008


➤ Lender appraisal (Leasehold)

➤ Title Commitment (must separate land and home into two separate parcel legal descriptions)



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Leasehold Appraisal



Example: Appraising a CLT mortgage

A family is looking for a mortgage to purchase a home from a CLT program, which requires an annual ground lease rent of \$552.

An appraiser analyzes current low risk investments and determines that the current capitalization rate is 2%.

The appraiser has also determined that the fee simple property value is \$150,000 using the same appraisal techniques as for any other property appraisal.

To determine the lease value in the appraisal, the appraiser will first divide the annual ground lease rent (\$552) by the capitalization rate (2%) to determine the lease fee value (\$27,600, which will be rounded to \$28,000).

$$\text{Lease Fee Value} = \frac{\text{Annual Ground Lease Rent}}{\text{Capitalization Rate}}$$

Finally, subtract the lease fee value (\$28,000) from the fee simple property value (\$150,000). The final leasehold value of the property is \$122,000.

$$\text{Final Leasehold Value} = \text{Fee Simple Property Value} - \text{Lease Fee Value}$$

Ground Lease Riders

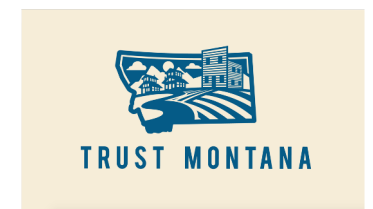
Because CLTs use resale restrictions to further subsidize the purchase price, Fannie Mae requires lenders to use a ground lease rider to qualify for a Fannie Mae mortgage. The rider removes resale restrictions in foreclosure, which means that properties should be appraised as though resale restrictions are not in place.

A CLT appraisal must include the following statement:

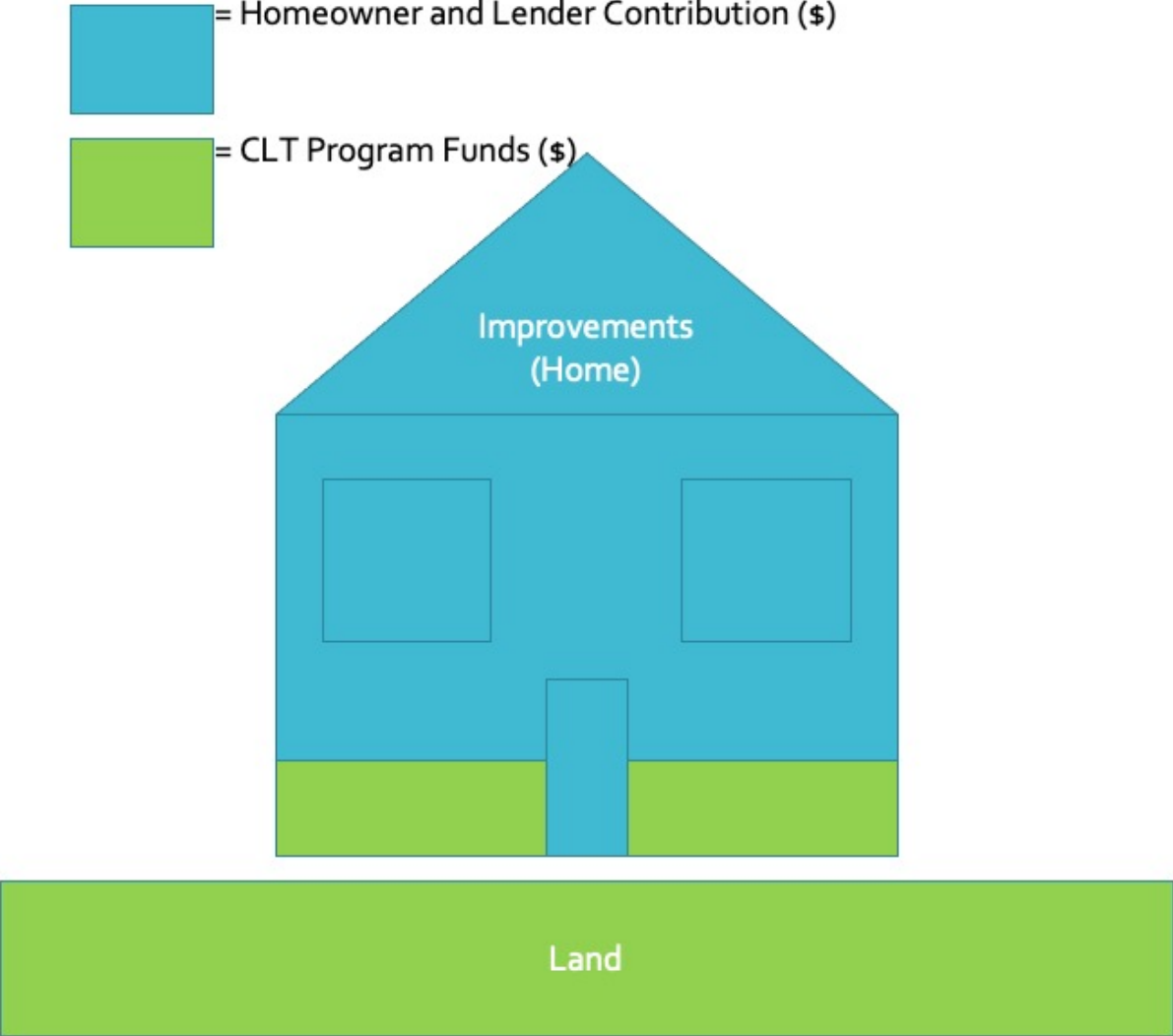
This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Uniform Community Land Trust Ground Lease rider.

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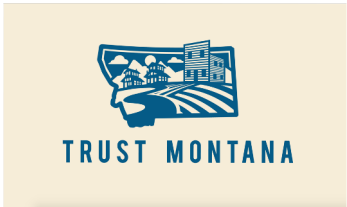
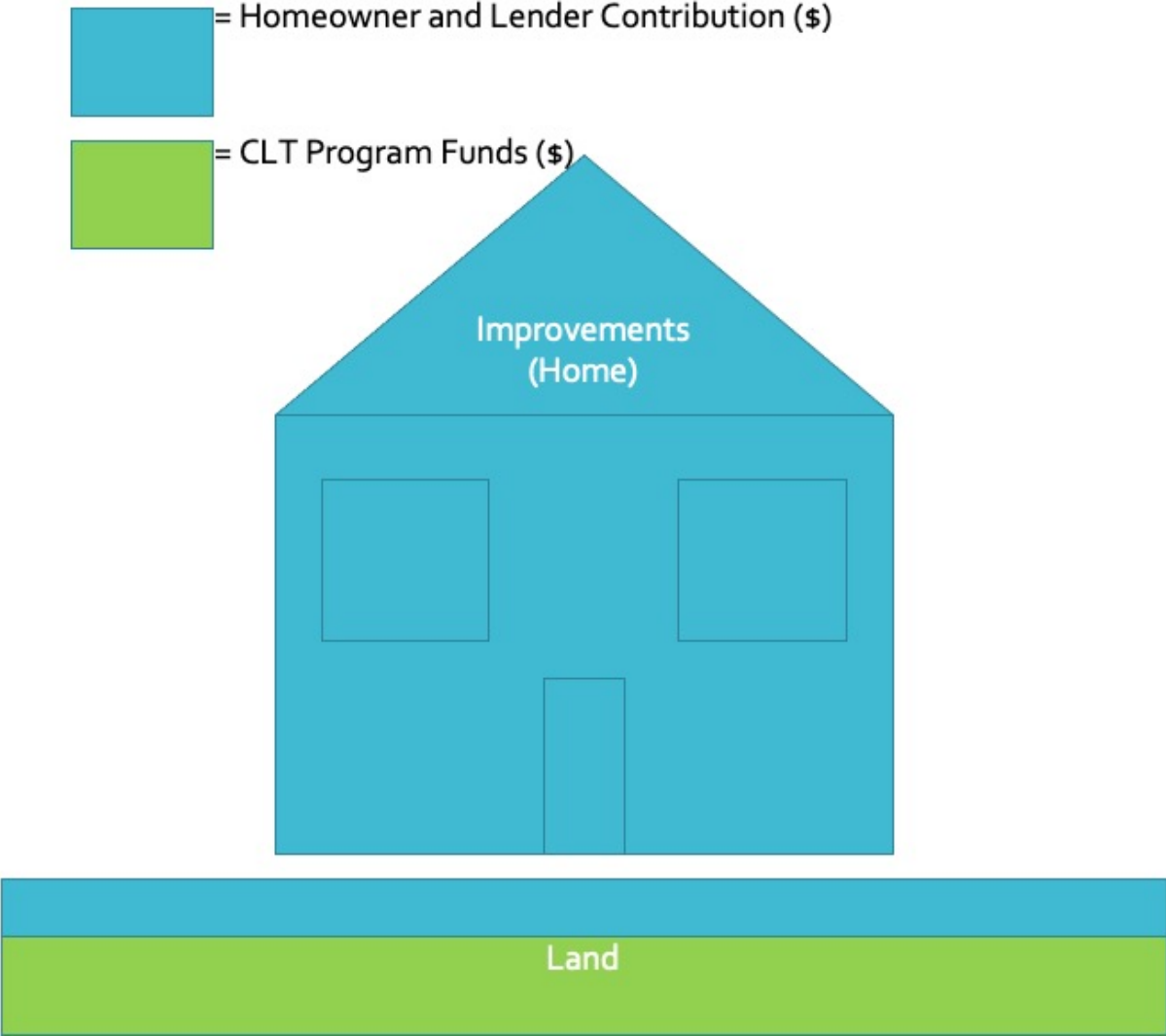
- Instead of getting two appraisals, one for the land and one for the home, the home must be appraised before closing as if it already were a **leasehold interest**
- Leasehold interest means the value the homeowner has in the home, considering the land it is on is rented. (Less than full market price)
- The amount of money the CLT brings to the transaction should be at least 20% of the leasehold value so the buyer doesn't have to pay mortgage insurance



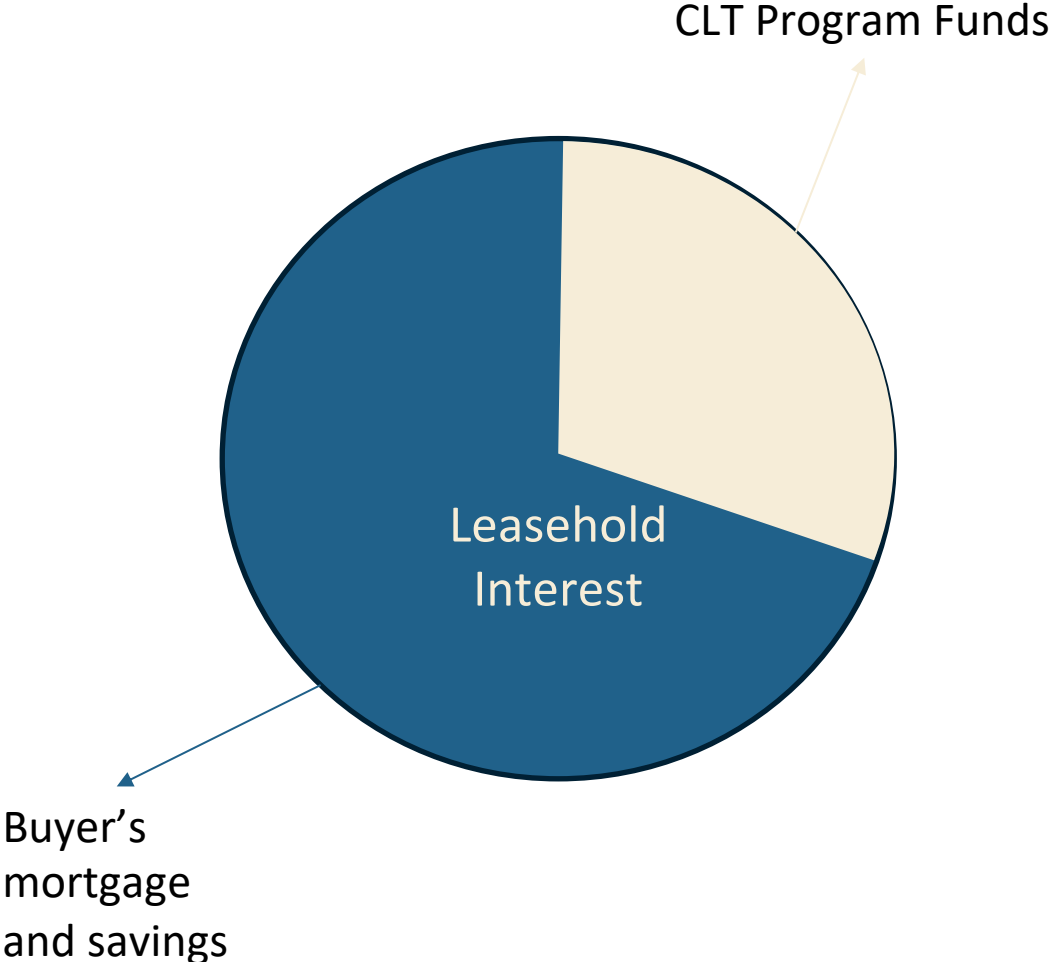
Ideal Situation for Two Appraisals



Less than Ideal Situation



Leasehold Interest



Closing Procedure



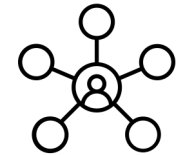
- Seller executes Warranty Deed to Income Qualified Buyer – **Recorded**
- Buyer immediately executes Warranty Deed for Land **ONLY** to CLT – **Recorded**
- Buyer and CLT execute a Ground Lease
- Buyer and CLT execute a Notice of Ground Lease referencing the Ground Lease - **Recorded**
- Buyer executes a promissory note and mortgage instrument in favor of lender based on the **leasehold value**, not full market value (following lender instructions)
- Funds disbursed
- CLT commences long-term stewardship of property



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Notes from Our Experience

- Communicating with every party is key
 - State (DOC/DOR)
 - County
 - Secondary Market
 - Title Companies
 - Lenders
 - Real Estate Agents
 - Homebuyers



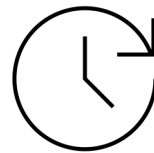
- Real Estate Agents
 - Weekly meetings to promote program
 - Rely on their expertise in negotiating
 - CLT should not try to be the focus of the deal



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Next Steps: Buyer-Initiated CLT Program in Your Community

- Now that the first closing on a buyer-initiated CLT home in Montana has taken place, Trust Montana can help other communities develop these programs
- Will need grant funding for the subsidy
- Communities with more moderate median home price are ideal for this program
- Hot markets should couple with rehab, sweat equity programs, commercial to residential conversions.



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