Homebuyer Initiated Programs for Community Land Trusts in Montana

MT Shared Equity Housing Summit
January 20, 2022

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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.
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
Program Funding

- MTDOC/HUD
- Private Foundation Grants
- Private fundraising
- Benefits to each
- Stability vs Flexibility
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)
Leasehold Appraisal

● 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

- Homeowner and Lender Contribution ($)
- CLT Program Funds ($)
Leasehold Interest

Buyer’s mortgage and savings

CLT Program Funds

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
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
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.