

## **BASIC ISSUES IN FINANCING CLT HOMES ON LEASED LAND**

### **CLT's ISSUES**

#### ***PERMANENT AFFORDABILITY - PRESERVATION OF RESALE PROVISIONS***

- CLT goals include long term affordability, protection and preservation of public and private subsidy used to create initial affordability
- Key mechanisms on which CLT relies to achieve goals (e.g., resale restrictions) need to be enforceable and be binding on future homeowners.

#### ***CONTROL OF LAND***

#### ***RESPONSIBLE USE OF LEASED PREMISES***

#### ***LEASEHOLDER OCCUPANCY OF LEASED PREMISES***

#### ***LAND LEASE FEE***

- Intended to help fund CLT's administrative and overhead costs fees
- Intended to monitor homeowner's ability to meet financial obligations
- Impacts homeowner's initial affordability.

#### ***LIABILITY FOR PERSONAL INJURY AND PROPERTY DAMAGE***

#### ***DEFAULT EVENTS [CLT's and Lender's interests conflict]***

- Lease termination: CLT sees it as a limited-use but necessary remedy essential to the protection of its long-term interest in the land, its ability to collect land lease fees and its overall organizational mission to preserve housing affordability.

#### ***FORECLOSURE OF HOMEOWNER'S MORTGAGE [CLT's and Lender's interests conflict]***

- Timelines: CLT wants to move *slowly*, allowing time to:
  - if possible, pursue a cure of distressed homeowner's mortgage default
  - if not possible, to make arrangements to obtain lender's interest in the security by purchase of the mortgage (prior to foreclosure) or purchase of the improvements (after foreclosure)

#### ***PREVENT "PREDATORY LENDING"***

### **LENDER'S ISSUES:**

#### ***MAY BE A NEW AND UNFAMILIAR IDEA***

#### ***WHAT IS THE "SECURITY" FOR THE LOAN?***

- Defining collateral
- Defining value of collateral - appraisal issues

### ***LAND LEASE FEE***

- How will it affect mortgage underwriting - qualifying incomes - maximum mortgage – fee increases?
- Escrowing all, or a portion, of fee

### ***TERM OF LEASE***

- Value of security declines as end of lease term approaches
- Mortgage loan must fully amortize prior to end of lease term

### ***DEFAULT EVENTS [CLT's and Lender's interests conflict]***

- Lease termination: lender concerned with any provision that could give rise to termination as it jeopardizes their security interest
- Events of default that can not be cured by payment of money.
- What remedies does lender have if homeowner/mortgagor defaults on the lease?

### ***LENDER RIGHTS UNDER MORTGAGE FORECLOSURE [CLT's and Lender's interests conflict]***

- Timelines: Lender wants to move *quickly* to:
  - get its money back - preferably all of it - as painlessly as possible
  - commence foreclosure
- Marketability:
  - lender will see restrictions on occupancy and resale as severely hampering its ability to sell the property if acquired/taken in foreclosure.

## **HOMEOWNER'S ISSUES**

### ***FINANCING AVAILABILITY***

- Mortgage, refinance, home equity
- When homeowner sells, new buyer can get a mortgage
- “Permitted Mortgage” defined – CLT must allow permitted mortgages

### ***DEFAULT***

- Ability to cure mortgage and lease defaults without losing the home or lease
- “Backstopped” by CLT

### ***PERMANENT AFFORDABILITY***