

MAKING CLT LEASEHOLD MORTGAGE FINANCING WORK

And Make Life a Bit Easier For You
(and Your Lending Partners)

BALANCING INTERESTS

1. The CLT

2. The homebuyer or CLT
homeowner (the 'mortgagor')

3. The bank (the 'mortgagee')

SESSION OVERVIEW

1. What **we**, as the CLT, want
2. What **they**, the 'banks', want
3. What **you** need to do to get the approvals needed for mortgage financing for your homebuyers/homeowners

WHAT DO
OUR CLT HOMEBUYERS
WANT?

WHAT CLT HOMEBUYERS WANT

- Open access to mortgage financing
- Conventional underwriting
- Acceptable rate and term
- Fair, transparent, friendly application process
- Low out-of-pocket cash down payment requirement
- Other? (e.g., no prepayment penalty?)

WHAT DO WE,
AS CLTs,
WANT?

WHAT CLTs WANT

ORGANIZATION & MISSION

OWNERSHIP AND CONTROL OF LAND

- Long-term control of future use and disposition:
 - of land
 - of buildings located on land
- Requires **leasehold mortgage**

Non-traditional, atypical, unfamiliar arrangement
for banks

WHAT CLTs WANT

ORGANIZATION & MISSION

PERMANENT AFFORDABILITY

CLT has two fundamental goals here:

1. protecting the affordability of home *forever*
2. leveraging public subsidies invested to create initial housing affordability *forever*

Banks really don't want resale restrictions
to survive foreclosure

WHAT CLTs WANT

ORGANIZATION & MISSION

ABILITY TO ENFORCE LEASE AGREEMENTS

- CLT monitors and enforces homeowner compliance with the lease agreements they signed
- Lease gives CLT the right to declare default on lease
- Lease gives CLT the right to terminate lease agreement, if needed

Banks do not want termination of lease during term of their mortgage

WHAT CLTs WANT

ORGANIZATION & MISSION

STEWARDSHIP

- CLTs commit themselves to standing behind their homeowners and the homes in which they live
- To help ensure the likelihood that homeowners remain successful as homeowners
- To help ensure that CLT homes are well-cared for and well-maintained

Banks want their collateral to be kept in good repair and they benefit from CLT 'backstopping' of their borrowers

WHAT DO
THE BANKS
WANT?

WHAT BANKS WANT:

COMFORT & FAMILIARITY

- Banks need to understand and be comfortable with:
 - The CLT strategy and its merits and requirements
 - Your CLT organization and its capacity
 - Your potential homebuyers and their qualifications
 - The loan products and programs you are seeking

WHAT BANKS WANT: QUALIFIED APPLICANTS

Ideally, pre-qualified applicants

- Sufficient income to qualify for mortgage
- Sufficient creditworthiness to qualify for mortgage
- Not too much debt
- Sufficient down payment
- Pre-purchase homebuyer education and counseling
- Possible other underwriting requirements

WHAT BANKS WANT: SECURITY FOR LOAN

- Defining collateral - i.e., leasehold estate (the value of the improvements plus value of leasehold interest in land)
- Determining the value of this collateral
 - How are appraisals to be completed?
 - How are appraisals actually done?
- CLT 'backstopping' is a credit enhancement. But how to quantify?

WHAT BANKS WANT:

TERM OF LEASE AGREEMENT

- Lease term long enough to ensure lease does not expire before mortgage is fully amortized
 - Model ground lease: 99-year term
 - 2011 model ground lease *requires* new lease to be issued to new homebuyer at resale

WHAT BANKS WANT:

FEEES CHARGGED BY CLT

- Amount - homebuyer-paid fees are factored into front-end ratio in determining applicant's mortgage eligibility
- Adjustments - Increased homebuyer-paid fees could:
 - make monthly housing costs unaffordable
 - reduce collateral value at foreclosure
- Escrow - Can/will fees be escrowed?
 - Not commonly escrowed
 - Complications for notice to CLT in event of delinquency

WHAT BANKS WANT: NO EARLY LEASE TERMINATION

- Bank does not want the lease to be terminated during the term of their mortgage

CLT wants the ability to enforce lease compliance

- At a minimum, bank wants advance notice and the opportunity, if it chooses, to cure lease default (e.g., paying delinquent monthly lease fees).

Non-monetary defaults are particularly problematic for banks to cure

WHAT BANKS WANT: FORECLOSURE RIGHTS

- Timing - Bank wants freedom to move as quickly to foreclosure as possible

CLT wants the time needed to prevent foreclosure

- Marketability - In event of foreclosure, bank wants few encumbrances on its ability to sell the leasehold property and recover what it is owed - so, income and resale restrictions must go away

CLT does not want to lose the home's affordability
(and possibly need to repay subsidies)

“STICKING POINTS” BETWEEN CLTs & BANKS

- Qualified homebuyer households
- CLT control of land
- Preserving housing affordability
- Security for loan
- Term of lease
- CLT fees
- CLT's right to enforce lease
- Bank's foreclosure rights
- Bank's familiarity and comfort level -
with CLT strategy, with the CLT organization and its capacity, and
with CLT's lending preferences and requirements

**EFFECTIVE,
DEDICATED
STEWARDSHIP**



WHERE CLTS
CAN ADD VALUE
TO MORTGAGE LENDING
PROCESS

WHERE CAN WE ADD VALUE IN THE MORTGAGE FINANCING PROCESS?

- By educating, preparing and pre-qualifying potential homebuyer/mortgagors
- By building confidence and trust with banks, by providing accurate, detailed, thorough information
 - about CLTs
 - about our CLT organization and its capacity
 - about the requirements - and the benefits - of CLT leasehold mortgage financing

WHAT WE, AS CLTs, TYPICALLY DO

IDENTIFY POTENTIAL HOMEBUYERS:

- Determine program eligibility
 - Income-eligibility (e.g., <80% AMI or <120% AMI)
 - Income sufficient to qualify for bank financing (e.g., PITI & lease fee <35% - 45% of gross household income)
 - Credit score ≥ 650
 - Cash for bank-required out-of-pocket down payment
 - Perhaps some limit on assets
 - Completed pre-purchase homebuyer education and counseling
 - Attended CLT orientation session

WHERE WE, AS CLTs, CAN ADD REAL VALUE

ACTUALLY PRE-QUALIFY HOMEBUYERS:

- Definition of “housing cost burden” is paying more than one-third (1/3) of household income on housing costs
- If banks are using ‘front-end’ ratios (housing debt-to-income) of 30-33%
 - Shouldn’t we be using ratios of 28% -30%?
- If banks are using ‘back-end’ ratios (total household debt-to-income) of 40%-45%
 - Shouldn’t we be using ratio of 38%-40%?
- Community land trusts, at their very core, are high-touch, service-enriched strategies to help ensure that our homeowners are successful
 - Shouldn’t we be starting this process *before* they purchase their home?

WHERE WE, AS CLTs, CAN ADD REAL VALUE

MAKE SURE THAT LENDERS ARE GETTING ACCURATE & THOROUGH INFORMATION ABOUT OUR POTENTIAL HOMEBUYERS:

- Eligibility, per your CLT's threshold eligibility criteria
- Pertinent personal/household information
- Employment (current and previous) history and income
- Expenses (fixed, periodic fixed, flexible, discretionary, debt)
- Household income
- Household assets
- Credit history
- Personal preferences re: homeownership; housing debt; housing costs

WHERE ELSE CAN WE, AS CLTs, CAN ADD REAL VALUE?

PROVIDE ACCURATE, THOROUGH, FORTHRIGHT
INFORMATION TO OUR LENDING PARTNERS:

- About our nonprofit, community-based, tax-exempt organization
- About our organizational mission and operations as a community land trust
- About our organizational capacity, track record and accomplishments
- About our projects-in-the-works — short- and long-term
- About our understanding of the requirements and the benefits of leasehold mortgage financing

LIST OF CLT INFORMATION TO PROVIDE TO BANKS

- Written summary of your CLT organization
 - Nonprofit organization, community-based organization
 - Charitable 501(c)(3) organization
- Roster of board of directors (and affiliations)
- Staff roster (including responsibilities and experience)
- Annual report
- Brochures, website printouts, etc.
- Testimonials from homeowners, if available

LIST OF CLT INFORMATION TO PROVIDE TO BANKS

- Housing projects-in-the-works: short-term and long-term
- Copy of CLT ground lease
- Summary of your CLT's leasehold mortgage financing requirements
 - Written overview
 - Article 8 of ground lease, "Financing"
 - Exhibit: "Permitted Mortgage"
- Summary of CLT mortgage performance (your CLT; national)

TALKING POINTS: FIRST MEETING WITH BANK

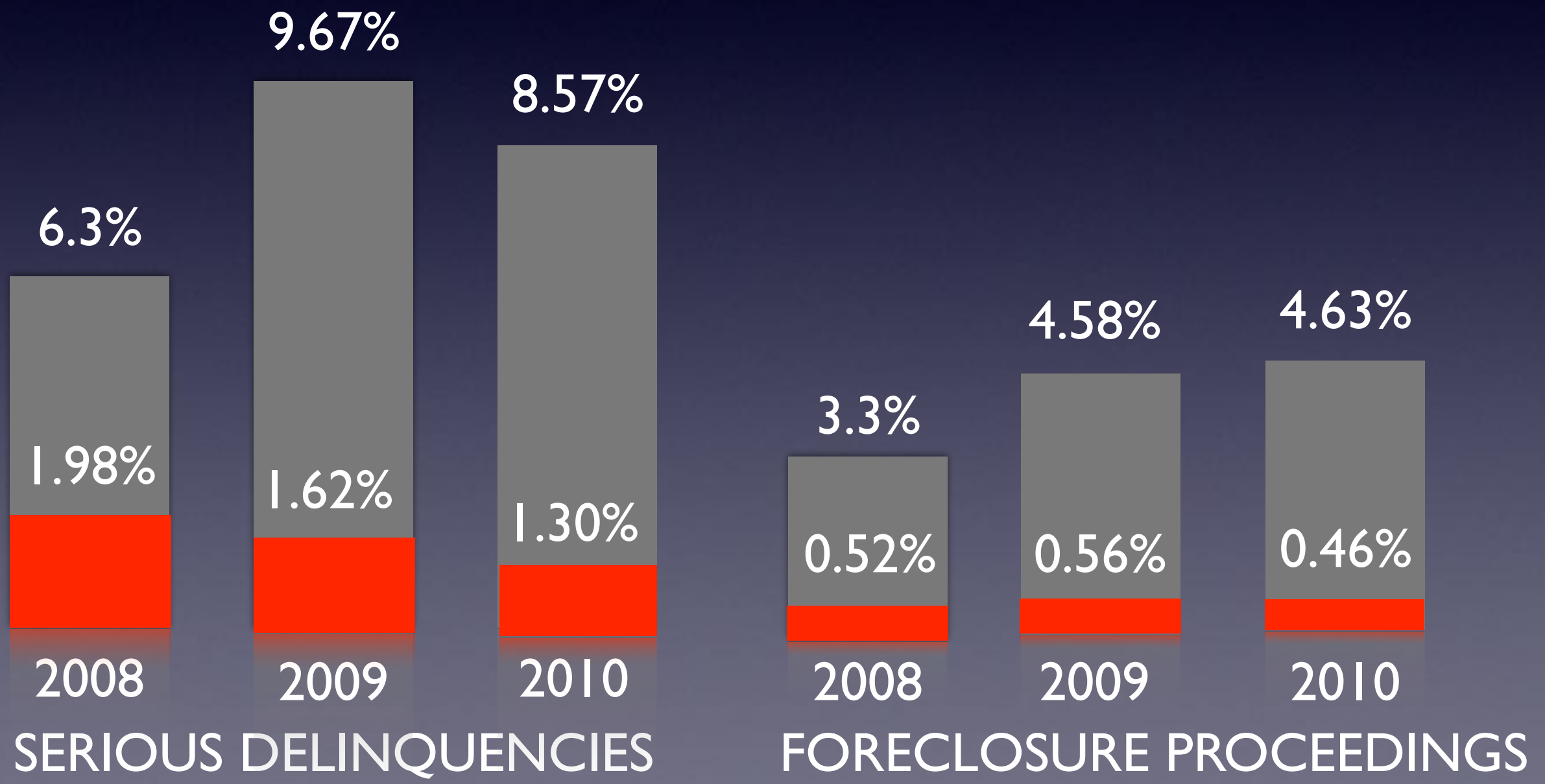
1. Our mission and purpose, as CLT:
 - a. To help homeowner be successful
 - i. as homeowner
 - ii. as mortgagor
 - b. To leverage taxpayer \$\$ used to make home affordable and available
 - c. To ensure home is well-maintained and retains its value (even as we keep its resale price affordable)

TALKING POINTS: FIRST MEETING WITH BANK

2. CLT ownership structure requires leasehold mortgage (as is common in commercial lending)
3. Purchase price write-down is equity, resulting in favorable Loan-To-Value ratios for you as mortgagee (e.g., LTV <80%)
4. We monitor and support homeowner performance and are willing to provide additional assistance, when needed
5. We'll do whatever we can to prevent foreclosure and, if it ever gets to foreclosure, we'll buy it back

CLT LEASEHOLD MORTGAGE PERFORMANCE

■ Total Loans (per MBA)
■ CLT Loans



NATIONAL INSTITUTIONS

- FHA
- USDA Rural Development
- VA
- Freddie Mac
- Fannie Mae

FANNIE MAE AND CLT LEASEHOLD FINANCING

- All Fannie Mae products described in *Selling Guide* are eligible except ARMs with initial fixed period of 5 years or less
- One- and two-unit principal residences are eligible. (Manufactured homes and units in co-op are not.) Eligible condo projects and PUDs are permitted.
- Very specific appraisal methodology stipulated
- Fannie Mae Uniform CLT Ground Lease Rider must be used

FANNIE MAE AND CLT LEASEHOLD FINANCING

- As of August 2015, CLT mortgages can be underwritten with Desktop Underwriting (DU®)
- Lender can inform DU® that loan can be underwritten by entering “Affordable LTV”
- DU® will determine the LTV, CLTV, and HCLTV ratios solely on the appraised value for purchase transactions - and *not* the lesser of the sales price or the appraised value

FANNIE MAE AND CLT LEASEHOLD FINANCING

Fannie Mae's CLT Product Feature Resources:

- CLT Checklist
- Fannie Mae *Selling Guide* Section B4-5.104: “Community Land Trusts”
- Fannie Mae *Selling Guide* Section B4-5.104: “Community Land Trust Appraisal Requirements”
- Form 2100, “Community Land Trust Ground Lease Rider”
- DU® version 9.2 August Update Release Notes

FANNIE MAE

CLT ORGANIZATIONAL REQUIREMENTS

Requirements for Mortgage Loans Secured by Properties Held by a Community Land Trust

The community land trust organization must have the capacity to administer leasehold mortgages.

The community land trust or its affiliated organization must have at least two years experience in successfully managing affordable housing, which can be evidenced by an organizational resume or history that summarizes the organization's experience in providing affordable housing.

The bank must review a list of the staff responsible for the community land trust's homeownership program, their titles, and their resumes to determine if they have sufficient experience and skills to manage affordable housing.

The bank must review the most current annual report or other report documenting the history and successful performance of the community land trust for the most current year.

The bank must review the subject community land trust's ground lease to confirm that it is based upon either the *National Community Land Trust Network (NCLTN) 2011 CLT Network Model Ground Lease* or the *Institute for Community Economics (ICE) Model Ground Lease*. The bank can request a copy of either model ground lease from NCLTN. If the ground lease is not based on either of these model leases, the bank must obtain Fannie Mae's approval of the ground lease.

QUESTIONS?
COMMENTS?
SUGGESTIONS?

WAS THIS SESSION
HELPFUL?

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