



Trust Montana Homebuyer Education Packet

Trust Montana is a statewide Community Land Trust (CLT).

Trust Montana’s Mission is to promote CLTs and hold land in trust to facilitate workforce housing, farmland affordability, and the preservation of vital community assets to keep rural and urban areas livable for Montanans of varied economic means.

Trust Montana’s Vision is economically diverse Montana communities in which homeownership is attainable, access to land is affordable for farmers and local businesses, and Montanans of all income levels can live and thrive.

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Once you’ve reviewed the information in this packet you should understand the following:

...the benefits of living in a Trust Montana home include:

- The long-term security of homeownership;
- The right to deed your home to heirs;
- The stability and possible reduction of monthly housing costs; and,
- The ability to accumulate earned equity, and limited market equity.

...the following homeowner responsibilities:

- Obtaining a mortgage;
- Taking a first-time Homebuyer class;
- Understanding your resale formula; and,
- Understanding your ground lease.

Montana Housing Financing Option

Montana Board of Housing (Montana Housing) will offer financing for buyers of CLT homes without the additional cost of private mortgage insurance. Montana Housing is able to give this great deal because of the Community Land Trust's investment in the land under the homes – a subsidy that creates a favorable Loan to Value ratio for CLT home buyers.

If you are interested in accessing this financing to purchase a home, talk to your lender to make sure the bank can work with Montana Housing. Lenders with any questions about this set-aside and mortgage insurance waiver can call Montana Housing directly at 406-841-2849.

Income Limits – Who is Eligible for Trust Montana Homeownership?

Typically, Trust Montana homes are only available to be purchased by households earning less than 80% of the Area Median Income (these numbers are updated yearly by HUD). See below for what that means for your household **if you live in Missoula**.

Maximum Income (80% Missoula Area Median Income)*	\$41,100	\$46,950	\$52,800	\$58,650	\$63,350	\$68,050	\$72,750	\$77,450
Household Size (# of people)	1	2	3	4	5	6	7	8

Minimum Household Income: As a general rule, a buyer should have an annual gross income of at least \$22,000. If an applicant has lower annual earnings, this can be offset by having access to a significant down payment which can either be achieved through personal funds or a combination of personal funds and down payment assistance programs.

Ability to get a Mortgage: Your ability to purchase a home in the Land Stewardship Program is conditioned on your ability to obtain financing. Acceptance to our program does not guarantee your ability to obtain a mortgage.

However, to obtain financing it is beneficial if you have:

Credit: You should have a good credit rating, with no recent bankruptcies.

Debt: Your monthly debt payments do not exceed 10% of your gross monthly income.

Employment: You should have proof of steady employment or income for the past year.

Assets: If you have net assets exceeding \$20,000 in value, they must be used towards purchasing your home. Assets include savings, land, mobile homes, recreational vehicles, boats, etc. Assets do not include household possessions, cars, tools, IRAs, pensions or any investment that would have a penalty for withdrawing money early. This means you CANNOT own any other real estate.

Down-payment Requirement: You must have a down-payment. The amount of down-payment required varies depending on the loan product you choose. For example: a conventional mortgage requires a minimum of 3 – 5% down-payment, a VA loan requires 0% down-payment. Down-payment assistance programs can be used on most of our homes. You will also be required to pay for your closing costs, either with cash at closing or by financing them through your mortgage. Your lender can give you an accurate estimate of closing costs.

Willingness to own a limited equity Community Land Trust home: Ownership of a Land Stewardship Project property is similar to market rate homeownership in many ways, but also different in very important ways. We will work with you to ensure that you understand the unique aspects and goals of our program.

TRUST MONTANA is an Equal Housing Opportunity provider and conducts business in accordance with the Federal Fair Housing Law.

Community Land Trust (CLT) Basics

What is a community land trust?

A community land trust (CLT) is a nonprofit, community-guided organization that works to provide permanently affordable homeownership opportunities that are reserved for income-qualified buyers. A CLT creates additional housing opportunities by either purchasing land with existing housing, or constructing new housing on vacant land. The ownership of land and the home is then separated, with Trust Montana retaining ownership of the land, and the homes (improvements) on the land being sold to income-qualified buyers. Rather than owning the land and the home, homeowners are granted long-term renewable and inheritable rights to the land. This relationship between the homeowners and the CLT means the homes are affordable to people who would otherwise be unable to purchase a home. CLT residents benefit from stable monthly payments, residential security, and the opportunity to build equity. There are over 250 CLTs in the nation today, in cities, suburbs, and rural areas.

How CLTs lead to increased and permanent affordability

To achieve and maintain attainable home prices, three important mechanisms are involved: (1) removal of land cost from the price of the home, (2) investment of subsidy in the home to bring down the price and (3) the resale formula that keeps the home affordable from one buyer to the next.

Land costs have been appreciating at a high rate in the Missoula area and removal of land cost from the price of the home is the first mechanism that significantly lowers the price of the home. When a homeowner purchases a home, they also enter into a Ground Lease with the Trust Montana that leases the land under the house at a low fee of \$30/month. The Ground Lease gives the person who occupies the land the perpetual use of the land, which **cannot** be ended unless the homeowner fails to pay the fee or uses the land in a harmful way. To the outside observer, it appears that the lessee is the land owner. The lessee's right to act like the day-to-day owner of the land is theirs to control. The Trust Montana Ground Lease is renewable and inheritable and runs for seventy-five-year periods. Perpetual leasing of land is not a new idea. It has been used in some New England farming communities for many decades. Long-term land leases are also common on railroad lands and State lands, where individuals own structures on leased land. The Ground Lease also defines the second mechanism, a Resale Formula, which continues the affordability of the home into the future.

A Community Land Trust owner agrees upon purchase to follow a defined process at resale. The lease contains a resale formula that defines the maximum resale price. An owner cannot exceed that price when selling the home. This allows a CLT owner to retain their earned equity, but caps the unearned equity that can be gained over time. The formula-based resale price ensures that the home stays affordable for the next owner.

Frequently Asked Questions about CLTs

What is the long-term agreement between the CLT and the CLT homeowner?

CLT homeowners enter into a long-term, legally-binding agreement with Trust Montana in order to preserve the affordability of their home permanently. This agreement is a 75-year ground lease that grants the homeowner full access to the land. The ground lease is renewable and inheritable.

What is a ground lease?

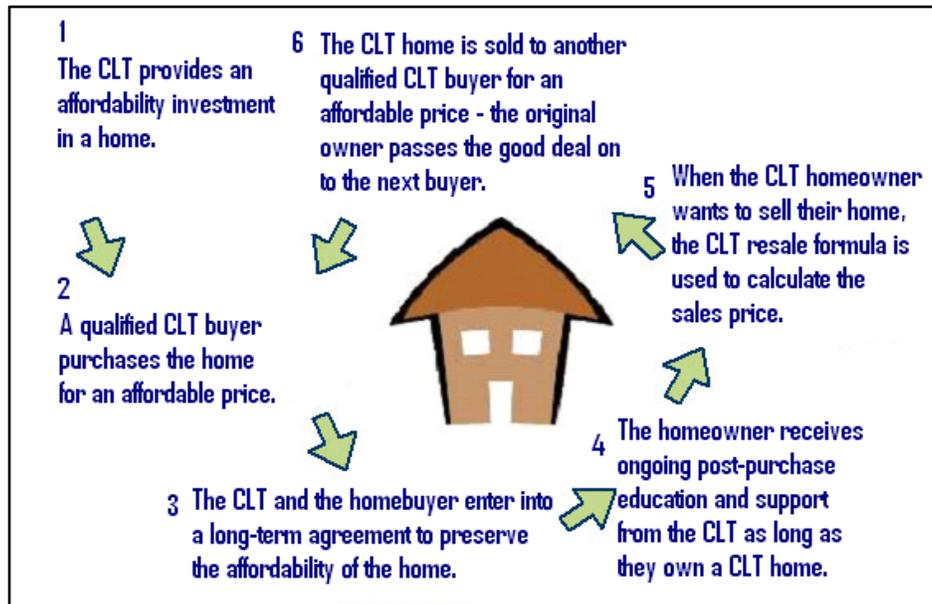
With single-family homes and townhouses, the CLT homeowner owns the house and other property

improvements and the CLT owns the land beneath. The land is held in 'trust' for the benefit of the greater community. Recognizing this unique relationship, the CLT and the homeowner sign a ground lease that defines the roles and responsibilities of both parties. The Ground Lease allows the homeowner secure, long-term rights to occupy and use the land. CLT homeowners have full responsibility for the property. Trust Montana homeowners pay \$30/month to Trust Montana as a ground lease payment.

How does CLT homeownership work?

Homebuyers with CLT programs purchase a home at a subsidized price from the land trust and enter into a long-term agreement (a ground lease) to preserve the affordability of the home. CLT homes are sold to households with threshold income levels. After purchase, the homeowner's income is unrestricted but when that household decides to sell, they pass the original subsidy and its long-term affordability agreement on to another household under the threshold income. The sales price is determined by using the easy-to-understand Trust Montana resale formula. In this way, homes stay affordable for future generations. See pages 9-10 for a detailed example of how the resale formula works.

The CLT Perpetual Affordability Cycle



Benefits of buying a CLT home through TRUST MONTANA

- Affordability – CLT homes are more affordable than homes purchased on the open real estate market because the CLT provides affordability assistance to its homebuyers.
- Mortgage – stabilized, consistent, and affordable housing payments.
- Community – CLT homeowners are important to Trust Montana -- as part of a larger community of CLT homeowners, they are encouraged to apply for membership on Trust Montana board of directors.
- Support – CLT homebuyers have the support of the Trust Montana and its staff as long as they own their homes.
- If a homeowner is having trouble paying their mortgage and is entering foreclosure, Trust Montana can help expedite a sale to a new homebuyer to help the homeowner out of a bad situation.
- Stability – homeownership provides stable housing costs and security. With this stability, homeowners have a solid foundation that can allow them pursuit of other dreams, educational, vocational, or recreational.
- Equity — CLT homeowners retain their earned equity and earn 1.5% per year on the value of the home.
- Tax benefits — homeowner may receive federal tax deductions for mortgage interest and property taxes.

Comparison of Trust Montana to Non-CLT Homeownership and Renting

How does CLT homeownership compare to renting?

CLT homeownership provides households stability and security. CLT homeowners have secure control of their homes, benefit from stable monthly housing payments, and the opportunity to accumulate equity. CLT homeowners can also take advantage of income tax deductions for their property taxes and the interest paid on their mortgage.

How does CLT homeownership compare to non-CLT homeownership?

Land trust homeownership is like market-rate ownership except that CLT home owners agree to pass the home's original affordability on to the next homebuyer.

Similarities:

- The homeowner has a mortgage with a bank;
- The homeowner accumulates earned equity by paying down their mortgage;
- The homeowner pays property taxes;
- The homeowner can make alterations and improvements; and,

- The homeowner may receive federal tax deductions for mortgage interest and property taxes.

Differences:

- The purchase price is lower because the CLT brings subsidy to the property;
- The CLT and homeowner enter into a long-term agreement (the Ground Lease) to preserve the home's affordability; and,
- If a CLT homeowner chooses to sell the home, the homeowner walks away with limited equity, with the amount of equity being based on the resale formula instead of market forces. TRUST MONTANA homeowners earn 1.5% simple interest per year of homeownership, which will keep the home affordable for the next buyer. The table on Page 8 outlines costs and benefits of CLT homeownership, non-CLT homeownership, and renting.

Who pays the property taxes?

The CLT homeowner pays all the taxes associated with the home. The CLT-owned land beneath is tax exempt in order to increase the affordability of the home.

What is the process for selling a CLT home?

When a CLT homeowner wants to move, they must notify Trust Montana in order to determine the maximum allowable resale price. Then, they can either hire a realtor or sell the home on their own. The home can be sold to an income-qualified buyer (buyers must be income-qualified by Trust Montana and follow all other required steps as listed in this packet before closing on the home).

Comparing CLT Ownership to Other Types of Housing

The chart below shows an estimate of how CLT homeownership compares to renting a home and purchasing a home through the regular market over a seven-year period:

	Rental	CLT Ownership	Regular Ownership
Purchasing the Home			
Initial Market Value of Home	N/A	\$279,497	\$279,497
Affordability Investment (subsidy)	N/A	\$129,497	N/A
Total Purchase Price	N/A	\$150,000	\$279,497
Monthly Housing Costs*			
Monthly Rent + Utilities	\$1200	N/A	N/A
Mortgage Payment: Principal and Interest	N/A	\$674	\$1,346
Taxes and Insurance and SID Fees	N/A	\$150*	\$333
Mortgage Insurance Premium	N/A	\$0.00*	\$193
TRUST MONTANA Ground Lease Fee	N/A	\$30	N/A
HOA Fees and Utilities	N/A	\$95	\$95
Total Monthly Housing Cost	\$1,200	\$949	\$1,967
After 7 Years – Selling the Home			
Total Increase in Market Value (estimated 3% per year)	N/A	N/A	\$58,694
Unearned Equity for CLT Home (1.5% per year)	N/A	\$15,750	N/A
New Price (original purchase price + appreciation)	N/A	\$165,750	\$338,191
Plus TRUST MONTANA Admin Fee (collected at closing)	N/A	\$1,000	N/A
TOTAL RESALE PRICE	N/A	\$166,750	\$338,191
Financial Gain or Loss			
Amount of Mortgage Paid Off – Earned Equity	N/A	\$24,660	\$31,446
Plus Unearned Equity (from above)	\$0	\$15,750	\$58,694
Minus Realtor Fees*	N/A	-\$5,002)	-\$10,145)
Total Financial Gain or Loss	-\$100,800)	\$35,408	\$79,995
Additional Benefits			
	Rental	CLT Ownership	Non-CLT Ownership
Ability to deduct mortgage interest on taxes	NO	YES	YES
Tax-exempt land	NO	YES	NO
Long-term Security	NO	YES	YES
Ability to make alterations and improvements	NO	YES	YES
Future affordability for other community members	?	YES	NO

* CLT calculations assume a Montana Housing-guaranteed loan with 3.5% interest and no PMI

* Taxes and SID (Special Improvement District) fees are estimated

* Realtor fees calculated at 3% of sale price, not applicable for first buyer of CLT home

Trust Montana Resale Formula

The Trust Montana resale formula is designed to allow homeowners to earn equity without allowing the home to become unaffordable for the next buyer. Trust Montana's resale formula allows homeowners to collect 100% of their earned equity when they sell (the amount they have paid down on their mortgage) **PLUS** unearned equity in the form of a simple interest gain of 1.5% per year of ownership. This calculation is used to provide the homeowner the maximum resale price they are allowed to sell the home for. It does not guarantee that the home will sell for that much, as the surrounding market can affect the salability of any home – even CLT homes.

Because market fluctuations are impossible to predict for the long term, the resale formula includes a fail-safe switch to allow for situations wherein the market has changed in an unexpected way. This is the option to use the Consumer Price Index, as explained below. The Maximum Resale Price when a homeowner chooses to sell shall be the lesser of the below two options, A or B, plus Capital Improvement Credit as defined in the lease:

A) Formula Resale Price using the following formula:

1. the amount of the Homeowner's Base Price, **plus**
2. simple interest at a rate of 1.5% of the purchase price annually.

Or,

B) A Consumer Price Index Resale Price calculated as follows:

The Consumer Price Index inflationary change, calculated from the base price in the month and year of homeowner's purchase of the home to the month and year of the Homeowner's listing of the home for sale. The increase standard calculation shall be derived from the Bureau of Labor Statistics online calculator: <https://data.bls.gov/cgi-bin/cpicalc.pl>

Review of the Ground Lease: Trust Montana Homeowner Rights, Responsibilities, Requirements

The Ground Lease is a legally-binding long-term agreement between Trust Montana and the homeowner. The Ground Lease spells out homeowner and Trust Montana rights, responsibilities and requirements. By signing the Ground Lease, a home owner agrees with Trust Montana that long-term affordability of the home is a mutual goal.

Key factors for the Ground Lease include:

Future Affordability: Should a homeowner ever decide to sell their home, they will work with Trust Montana to ensure that the home will remain affordable for future low- to moderate-income households by using the resale formula as spelled out in the ground lease. Trust Montana also maintains the first option to purchase.

Responsibility to Community: You have the right to use the property in a reasonable way: This includes not damaging the land or common space, being a good neighbor in your community, and using the property as your primary residence.

Inheritance: You have the right to leave your home to your spouse, partner, child or other designated heir, as long as the heir follows the restrictions of the ground lease. For Lee Gordon Place, there are special restrictions in place for six of the seven homes: for the first 20 years of ownership, the home can only be inherited by someone

who is income-eligible, per Federal HUD Regulations. If an heir is deemed ineligible at time of inheritance, they will be required to sell the home to an income-eligible buyer.

Landscape: Homeowners are responsible for maintaining the property so that it is safe and decent. Like any homeowner, CLT homeowners have the right to make improvements to their yard (gardening, planting, landscaping). At Lee Gordon Place, homeowners have the responsibility of paying homeowner association fees, and have the option of being a member of the HOA board.

Ground Lease Fee: Homeowners have the responsibility to pay a \$30 per month fee to help cover Trust Montana administrative costs.

Home Improvements: Homeowners agree to seek permission from and provide information to Trust Montana before making any major improvements/remodels to the home other than regular maintenance and repairs. This will help establish criteria for a possible earned-equity return to the owner at resale.

Loans: No loan for any improvements (either interior or exterior) can be tied to (or secured by) the land under the home. A homeowner can secure a loan using the value of their home but **must consult with Trust Montana before refinancing** in order to make sure both the lender and the homeowner understand the current maximum resale value of the home.

Solving Problems: Homeowners agree to work out any disputes that may arise with Trust Montana through an arbitration process, which involves impartial mediators instead of lawyers and judges.