



## Trust Montana Homebuyer Education Packet

*Trust Montana's **Vision** is to hold selected lands within the state in trust and to steward them, in perpetuity, for a variety of vital community needs.*

*Trust Montana's **Mission** is to develop coalitions of mutual support and shared resources among housing, conservation, farming, and historic preservation advocacy groups in order to better and more holistically protect and preserve Montana's unique natural, cultural, agricultural and historic landscapes, communities and properties for the long-lasting health and benefit of all Montanans.*

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

...the benefits of living in a TM home including:

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

...the following homeowner responsibilities:

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

### **What is a community land trust?**

A community land trust (CLT) is a nonprofit, community-guided organization that works to provide permanently affordable home ownership opportunities. Some CLTs, like TM, also provide affordable access to land for farmers with limited means. In both cases, a CLT acquires land and removes it from the for-profit real estate market. Individual buyers purchase the home and outbuildings on the land, but do not purchase the land beneath. Instead, they 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. CLTs provide greater housing security than renting. CLT residents benefit from stable monthly payments, residential security, and the opportunity to build equity.

There are over 250 CLTs in the nation today. There are CLTs in cities, suburbs and rural areas.

## Frequently asked Questions

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

CLT homeowners enter into a long-term, legally-binding agreement with TM 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.

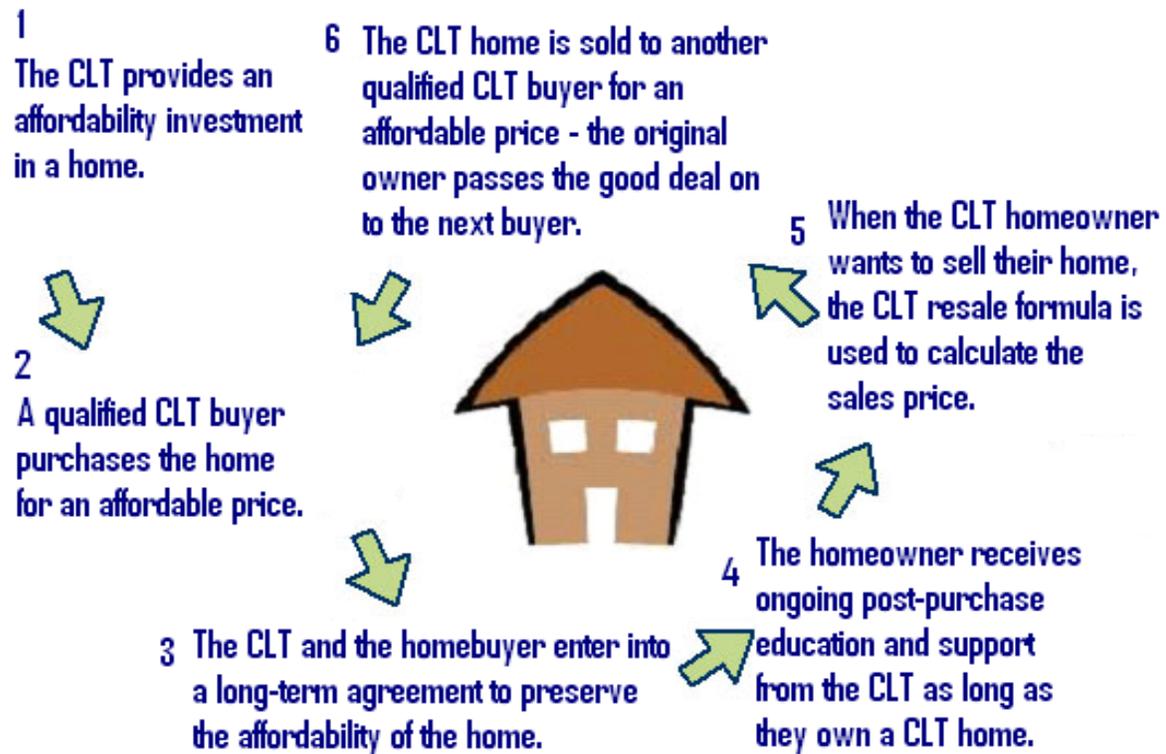
### **What is a ground lease?**

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. TM homeowners pay \$30/month to TM as a Ground Lease payment.

### **How does CLT home ownership work?**

Homebuyers with CLT programs purchase the land at a subsidized price from the land trust and enter into a long-term agreement 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 TM resale formula. In this way, homes stay affordable for future generations. See page 6 for a detailed example of how the resale formula works.

## The CLT Perpetual Affordability Cycle



### What are the benefits of CLT home ownership?

- 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 – consistent and affordable housing payments.
- Community – CLT homeowners are important to TM -- as part of a larger community of CLT homeowners, they are encouraged to apply for membership on TM's board of directors.
- Support – CLT homebuyers have the support of the TM and its staff as long as they own their homes.
- TM, through its partnership with the Red Lodge Area Community Foundation, can make help available for homeowners dealing with financial problems or foreclosure prevention assistance. If a homeowner is having trouble paying their mortgage and is entering foreclosure, TM can help expedite a sale to a new homebuyer to help the home owner out of a bad situation.
- Stability – Home ownership provides stable housing costs and security. With this stability, home-owners have a solid foundation that can allow them pursuit of other dreams, educational, vocational, or recreational.

## How does CLT home ownership compare to renting?

CLT home ownership 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 home ownership compare to non-CLT home ownership?

Land trust home ownership 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, based on the amount of equity is based on the resale formula instead of market forces: TM home- owners earn 1.5% simple interest per year of home ownership - this will keep the home affordable for the next buyer. The table on Page 8 outlines costs and benefits of CLT home ownership, non-CLT home ownership 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. As with all homeowners, property taxes and mortgage interest are tax deductible.

### What is the process for selling a CLT home?

- When a CLT homeowner wants to move there are several options. The home can be sold directly to an income-qualified buyer, can be sold back to the CLT, or it can be given to other qualified heirs of the home owner.

## Why do CLTs use a resale formula to calculate the sales price?

**Resale formulas are the mechanisms used to preserve shared-equity housing.** CLTs provide access to home ownership for people that cannot afford houses that are for sale on the regular market. CLT homes first become affordable because the CLT accesses grants and other subsidies that are invested in the first CLT home purchase. The public and private subsidies, which first endow the property with affordability are preserved for the larger community, in perpetuity, through the Ground Lease (see pp 7 and 8) enforced resale formula.

In other words, the resale formula preserves the affordability for the next family who will buy the CLT house. Essentially, by agreeing to the resale formula, CLT homebuyers are agreeing to help another limited income family purchase a house in the same way that they were helped in purchasing their house.

### Trust Montana Resale Formula

The TM resale formula gives TM homeowners 100% of their earned equity (the amount they have paid down on their mortgage) PLUS unearned equity in the form of a simple interest gain per year of ownership.

**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.

B) A Consumer Price Index Resale Price as calculated using 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>

An example of buying and selling a TM home using the resale formula is outlined on page 7 of this packet. The table on page 8 of this packet outlines the differences between renting, CLT home ownership and regular homeownership.

## Buying and Selling a TM Home Using the Resale Formula



Let's say you purchased your home through TM. It is worth \$279,497, but you pay \$180,000 because TM maintains ownership of the land, and Homeward provides subsidy, totaling a value of \$99,497 of subsidy.

7 years later, you decide to sell your home to either TM or another CLT income-qualified buyer.

You get to sell your home for the amount you purchased it for PLUS an equity increase of 1.5% simple interest for each year you owned the home.

TM or another income-qualified CLT homebuyer may purchase your home for what you originally paid (\$180,000), PLUS

1.5% of \$180,000 per year of ownership. For each year you owned the home you earned \$2,700.

For a maximum sale price of \$198,900 (\$180,000+\$18,900).

### Comparing CLT Ownership to Other Types of Housing

The below chart shows how CLT home ownership compares to renting a three-bedroom home and purchasing a home through non-CLT ownership over a seven-year period:

	Rental	CLT Ownership	Non-CLT Ownership
<b>Purchasing the Home</b>			
Initial Market Value of Home	N/A	\$279,497	\$279,497
Affordability Investment (subsidy)	N/A	\$99,497	N/A
Total Purchase Price	N/A	\$180,000	\$279,497
<b>Monthly Housing Costs*</b>			
Monthly Rent	\$1200	N/A	N/A
Mortgage Payment: Principal and Interest	N/A	\$860	\$1,346
Taxes and Insurance	N/A	\$217	\$333
Mortgage Insurance Premium	N/A	\$53.00	\$193
TM Ground Lease Fee	N/A	\$25	N/A
Total Monthly Housing Cost	\$1,200	\$1,155	\$1,872
<b>After 7 Years – Selling the Home</b>			
Total Increase in Market Value (estimated 3% per year)	N/A	N/A	\$58,694
Increase in Value of CLT Home (1.5% per year)	N/A	\$18,900	N/A
New Sales Price (original purchase price + appreciation)	N/A	\$198,900	\$338,191
<b>Financial Gain or Loss</b>			
Amount of Mortgage Paid Off – Earned Equity	N/A	\$21,066	\$28,842
Plus Unearned Equity	\$0	\$18,900	\$58,694
Minus Realtor Fees and CLT Admin Fees (if applicable*)	N/A	-\$7,956	-\$20,291
<b>Total Rent Paid</b>	\$100,800	N/A	N/A
<b>Total Financial Gain or Loss</b>	-\$100,800	\$32,010	\$67,245
	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 an MBOH/RD loan with 0% down, 4% interest

\* Non-CLT calculations assume a conventional loan with 5% down payment, 4.5% interest

\* Realtor fees calculated at 6% of sale price, not applicable for first buyer of CLT home

\*TM admin fee calculated at 1% of sale price

### **Review of the Ground Lease: TM 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 TM rights, responsibilities and requirements. By signing the Ground Lease, a home owner agrees with TM 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 TM 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. TM 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 primarily for residential purposes.

**Inheritance:** You have the right to leave your home to your spouse, partner, child or other designated heir. You have the right to leave the home to any other heir, provided that they meet the conditions of the Ground Lease.

**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). Depending on the home's location, they may have the responsibility of paying homeowner association fees.

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

**Home Improvements:** Homeowners agree to seek permission from and provide information to TM 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 TM before refinancing** in order to make sure the lender and homeowner understands the current maximum resale value of the home.

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

**Income Limits – Who is Eligible for TM Home ownership?**

For the Montana Street Home project, the two bedroom homes are only available to be purchased by households earning less than 80% of the Area Median Income, and the one bedroom is available to a household earning up to 80%\* of the Area Median Income. See below for what that means for your household. \*Subject to change

<b>Maximum Income (80% Missoula Area Median Income)*</b>	\$39,450	\$45,050	\$50,700	\$56,300	\$60,850	\$65,350	\$69,850	\$74,350
<b>Household Size (# of people)</b>	1	2	3	4	5	6	7	8

<b>Maximum Income (100% Missoula Area Median Income)*</b>	\$49,300	\$56,400	\$63,400	\$70,400	\$76,100	\$81,700	\$87,300	\$93,000
<b>Household Size (# of people)</b>	1	2	3	4	5	6	7	8

**Application Process – How to Apply for TM Home ownership**

**Phase I – Qualification for TM Programs and Properties:**

1. **Attend a workshop** at Homeword on August 11<sup>th</sup> at 10am, August 15<sup>th</sup> at 1pm, or August 21<sup>st</sup> at 5:30pm to find out if this model works for you.
2. Obtain **homebuyer education certification** by attending a HUD Certified Homebuyer Education Class.
3. Obtain a **pre-approval letter from a lending institution** for CLT specific loan product to see if you can afford to purchase the home.
4. Complete a TM application, including the following income verification information:
  - a) 6 most recent pay stubs from current job
  - b) Most recent W2 or full tax return
  - c) Proof of other types of income, self-employment and liquid assets.

**Phase II – Selection for TM Properties**

1. Complete all items as indicated on Intake checklist. TM and/or Homeword will be in touch to let you know if you've been selected to put an offer on a home.

**Phase III – Final Steps to Becoming a TM Homeowner**

1. Enter into a purchase agreement for home.
2. Final mortgage application is processed with local mortgage lender.
3. Obtain independent legal review of the Ground Lease from an attorney.
4. Loan closing and Ground Lease signing.
5. Contact the HOA president to get set up to pay HOA fees and learn about your fellow HOA members!

## Community Outreach and Homebuyer Selection Policy

### OVERVIEW

This policy is intended to guide the development and implementation of both program and project- specific community outreach and homebuyer selection procedures administered by Trust Montana(TM). This policy shall be reviewed on a regular basis by TM Board of Directors for effectiveness in guiding the organization in the pursuit of its mission.

### COMMUNITY OUTREACH AND MARKETING

TM is an Equal Housing Opportunity provider and conducts business in accordance with the Federal Fair Housing Law. When TM has a home/housing unit available for sale/resale it may use the following process:

- Mail informational flyers to organizations and persons on the contact waiting list;
- Put a FOR SALE sign on the property;
- Outreach to affordable housing, neighborhood, and community organizations on available property;
- Advertise home for sale in local newspapers; and
- List the home through the Multiple Listing Service, neighborhood newspapers, community service announcements, etc.

### ELIGIBILITY CRITERIA

The following criteria reflect TM's stated homebuyer education goals listed above:

- A. **Age** must be 18 in Montana to qualify for a mortgage;
- B. **Citizen of United States** or registered alien;
- C. **Home Ownership Education** – Must receive certification prior to final loan closing through the Home Center;
- D. **CLT Orientation** – Must have either attended CLT Orientation and/or have received TM one-on-one CLT education/counseling;
- E. **Maximum Income** – Must be at or below the stated income level for the specific home.
- F. **Minimum Income** – A household must have sufficient income to support housing costs and meet the minimum requirements of the lending institution of their choosing. The household must be pre-qualified for a mortgage as evidenced by a letter from a lending institution;
- G. CLT homebuyers **may not have a co-signer** on their mortgage;
- H. **Mortgage** – TM prefers that homeowners qualify using fixed rate mortgages, or other responsible loan products offered by their lender.