Maintenance and Repair Reserves:
Keeping the CLT Home in Good Condition

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The core mission of a CLT is to preserve affordability for generations. That necessarily entails stewardship that helps maintain the CLT property in good condition for resale. Because the resale formula does not typically consider the condition of the house in the resale price, some CLTs are revising their resale formulas to include incentives for maintenance and amending their ground leases to increase seller accountability for maintaining the home. Maintenance incentives in the resale formula can be as simple as adding compensation in the resale price for certain improvements. Seller accountability for home maintenance can be strengthened in the ground lease by adding certain requirements for the condition of the home at resale. A more reliable way of avoiding costs to the CLT for fixing up the home for resale is to establish a maintenance and repair reserve; in this way needed repairs are budgeted for so that the affordable property is kept in good condition over the long term.

Funding the Maintenance and Repair Reserve

Funding the anticipated capital needs of a home can be a challenge, especially to homeowners with limited incomes. This has led CLTs to establish maintenance and repair reserves both to assist homeowners in affording the maintenance that comes along with homeownership and to preserve the resources that were used to create the affordable housing. Many CLTs with a maintenance repair reserve collect a monthly maintenance/repair fee. However, a fee can be also capitalized when the unit is constructed or brought into the program and/or collected at resale.

The most recent version of the National Model CLT Ground Lease (the 2011 version included in this Primer) includes a repair reserve fee "to be held by the CLT and used for the purpose of preserving the physical quality of the Home for

the long term" in its definition of the ground lease fee. It then leaves a placeholder section to describe the particular CLT's repair reserve fee program.

Monthly fees can vary depending on the reasonable expectation of need for replacement reserves based on the quality of the structure, the durability of the materials and equipment in the home, and condition of the unit/development. The monthly fee may be incorporated into the amount of mortgage a buyer will qualify for upfront, which would likely mean that a larger subsidy is needed upfront to keep the monthly payments affordable.

Some CLTs add a certain percentage to the buyer's price over the seller's formula price to fund the reserve at resale. In some cases, a portion of these funds are used for maintenance and repair and a portion is used for administration. If this approach is taken, the CLT will not be able to rely upon the resale fee to cover 100% of the administration costs.

Once the type of reserve fee is established, it is then necessary to determine whether the fee will be collected for a specific unit or if it will go into a large pool to fund repairs. The latter is usually more of an emergency fund for homeowners, allowing the CLT to better carry out its stewardship role of assisting homeowners who are facing unexpected repair costs.

Administration of the Repair Reserve

Typically, CLTs implementing a maintenance/repair reserve fund have a separate fee for each unit. When separate funds are maintained for particular units, it needs to be determined whether any remaining funds can be withdrawn by the homeowner at resale or whether the funds remain with the unit. If the purpose of the fund is to cover damage to the unit rather than to cover capital expenses then it makes sense to refund any unused funds at resale. However, CLTs commonly view the funds as a way to cover anticipated capital improvements as major systems and equipment reach the end of their lifespan.

While a particular homeowner may not need to draw on the reserve during the time they own their home, their contributions to the reserve fund is covering the wear and tear on major systems of the unit that accrues during their tenure. A downside to keeping the reserve fund with the unit is that it may disincentivize the current homeowner from undertaking the needed preventative maintenance tasks to avoid or delay certain types of repairs.

A best practice is to be clear from the start as to what type of maintenance or repairs are eligible for the reserve fund. Some CLTs include an itemized list of eligible capital repairs on major components over time and some include a non-inclusive list so that other needed repairs are eligible provided they meet certain criteria.

Many CLTs decide what their goal is with the maintenance/repair reserve fund and design their programs around that. It is also possible, and perhaps ideal, to take a mixed methods approach in addressing the long term maintenance and preservation needs of the affordable housing resource that would include incentives in the resale formula, seller accountability in the ground lease, and maintenance/repair reserves.