Homebuyer Education for Community Land Trust Buyers

Ashon Nesbitt  nesbitt@flhousing.org
Michael Chaney  chaney@flhousing.org
Florida Housing Coalition
Housing Counseling Webinars

Webinar 1 recording:
https://vimeo.com/255454825

Webinar 2: Successfully Administering Counseling Assistance
March 30 at 10:00 am  Register:
https://register.gotowebinar.com/register/1798526545538628609
Catalyst Training Schedule

The Coalition is Florida’s affordable housing training and technical assistance provider.

The Florida Housing Coalition is commonly acknowledged as the foremost authority in Florida on affordable housing, community development and related issues, as a resource, a provider of training and technical assistance, and an advocate at the state and national levels for people in need of affordable housing.

www.flhousing.org
FHC Conference - Registration Now Open

Register today for the 33rd Annual Statewide Affordable Housing Conference

VISIT: flhousingconference.org
FHC Conference- Call for Proposals

Do you have an innovative idea, a great development, or an impactful strategy?

The Florida Housing Coalition is accepting workshop proposals from our members and partners.

VISIT: flhousingconference.org/call-for-proposals/
Overview of Webinar

• Introduction to Community Land Trusts
• Review of Buyer Education Topics
• Education Options for CLT Buyers
• CLT Topics: Ownership Interest, Ground Lease, Selling Your Home
• Guidance from a CLT Counselor
Two Audiences for Today’s Webinar

• SHIP staff learning more about CLTs
• Counseling agencies learning about CLTs, buyers, and the process
What is a Community Land Trust?

- The vehicle of separating land...
What is a Community Land Trust?

... from the house
What is a Community Land Trust?

The CLT is the nonprofit that holds title to the land and sells or leases the improvements (home) on top of the land to income eligible households.

The Home is subject to a Ground Lease that requires the home to be affordable in perpetuity.
CLT owns the land

Homebuyer leases the land and purchases the Home.

CLT Homebuyer has:
1) Ownership of Home
2) 99-year Ground Lease on the Land

Because the value of the land is taken out of the purchase price, the home is more affordable.

The Ground Lease contains a “Resale Formula.” This keeps the home affordable forever.
Income-Eligible Homebuyer will 1) own the home; 2) have a 99-year ground lease on the land.

99-year ground lease is the functional equivalent of ownership. This means the CLT will NOT serve as your landlord.

The separation of ownership, removing the value of the land from the home purchase, is what makes the home purchase affordable.
What is the Purpose of a CLT?

- A CLT Home is an alternative to renting
- To provide an opportunity for homeownership for those who may not otherwise be able to purchase a home
- To keep the home affordable forever
Rental

- Pay rent to Landlord
- No equity when you leave
- Subject to rent increases

CLT

- Monthly lease fee to CLT; mortgage payments to Lender
- Some equity at resale; subject to ground lease
- Affordable forever

Fee Simple

- Mortgage payments to Lender
- Subject to market conditions upon resale
- Complete form of ownership
Key Benefits for the Homebuyer

• Price of home is now more affordable
• Mortgage payments instead of rent payments
• Mortgage interest payments are deductible; homestead exemption
• Return of equity upon resale (to be discussed)
• Financial stability – ability to save without fear of rent increases
Key Benefits for the Community

- Creates permanently affordable housing.
- Provides an additional homeownership option for renters.
- A nonprofit is providing stewardship to help CLT homeowners be successful.
Overview of Homebuyer Class Topics

Pre-Purchase is primary among many types of Housing Counseling:

• Post-Purchase
• Foreclosure prevention
• Rental housing counseling
• Homeless Counseling
# Topics for Pre-Purchase Education

<table>
<thead>
<tr>
<th>Key Topics</th>
<th>Client Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assessing Homeownership Readiness</strong></td>
<td></td>
</tr>
<tr>
<td>Pros and cons of homeownership</td>
<td>Understand the benefits and responsibilities of homeownership</td>
</tr>
<tr>
<td>Overview of the home purchase process</td>
<td>Conduct self-assessment of homeownership readiness</td>
</tr>
<tr>
<td>Housing affordability</td>
<td>Calculate housing affordability</td>
</tr>
<tr>
<td>4 C's of credit</td>
<td>Understand how lenders determine mortgage readiness</td>
</tr>
</tbody>
</table>

Source: National Industry Standards for Homeownership Education & Counseling
# Standards for Education

<table>
<thead>
<tr>
<th>Key Topics</th>
<th>Client Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budgeting and Credit</strong></td>
<td></td>
</tr>
<tr>
<td>Importance of goal setting</td>
<td>Set financial goals</td>
</tr>
<tr>
<td>Tracking expenses</td>
<td>Develop system to track expenses</td>
</tr>
<tr>
<td>Setting up a spending plan</td>
<td>Create a realistic spending plan</td>
</tr>
<tr>
<td>Budgeting and saving tips</td>
<td>Identify ways to reduce expenses and increase savings</td>
</tr>
<tr>
<td>Importance of good credit</td>
<td>Understand the importance of good credit</td>
</tr>
<tr>
<td>Understanding credit and how to protect credit ratings</td>
<td></td>
</tr>
<tr>
<td>Credit bureaus, reports and scores</td>
<td>Order credit reports and credit scores</td>
</tr>
<tr>
<td>How to fix credit problems</td>
<td>Improve credit rating</td>
</tr>
<tr>
<td>Debt management tips</td>
<td>Reduce debt</td>
</tr>
</tbody>
</table>
Standards for Education

<table>
<thead>
<tr>
<th>Key Topics</th>
<th>Client Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing a Home</td>
<td></td>
</tr>
<tr>
<td>How a lender decides whether or not to</td>
<td>Understand how lenders make loan decisions</td>
</tr>
<tr>
<td>lend</td>
<td></td>
</tr>
<tr>
<td>Housing affordability and qualification</td>
<td>Calculate housing affordability</td>
</tr>
<tr>
<td>Sources for mortgage loans</td>
<td>Understand where to obtain a mortgage loan</td>
</tr>
<tr>
<td>Predatory loans and how to avoid them</td>
<td>Avoid high-risk loans</td>
</tr>
<tr>
<td>Types of mortgage loans</td>
<td>Choose appropriate loan product and source</td>
</tr>
<tr>
<td>Special financing products</td>
<td>Understand resources available to assist with home purchase</td>
</tr>
<tr>
<td>Steps in the mortgage loan process</td>
<td>Understand the loan process</td>
</tr>
<tr>
<td>Loan application and approval process</td>
<td></td>
</tr>
<tr>
<td>Common lending documents</td>
<td>Assemble documents needed for loan application</td>
</tr>
</tbody>
</table>
Standards for Education

<table>
<thead>
<tr>
<th>Key Topics</th>
<th>Client Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shopping for a Home</strong></td>
<td></td>
</tr>
<tr>
<td>The homebuying team</td>
<td>Understand the professionals involved in the homebuying process</td>
</tr>
<tr>
<td>Real estate professionals</td>
<td>Understand the different types of real estate professionals</td>
</tr>
<tr>
<td>Types of homes and ownership</td>
<td>Understand housing and titling options</td>
</tr>
<tr>
<td>How to select a home and neighborhood</td>
<td>Determine housing wants versus needs</td>
</tr>
<tr>
<td>How to make an offer</td>
<td>Understand the home purchase process</td>
</tr>
<tr>
<td>Negotiating tips</td>
<td></td>
</tr>
<tr>
<td>The purchase contract</td>
<td></td>
</tr>
<tr>
<td>Inspections</td>
<td>Understand the importance of a professional home inspection</td>
</tr>
<tr>
<td>Escrow and closing process</td>
<td>Understand the escrow and closing process</td>
</tr>
</tbody>
</table>
# Standards for Education

## Maintaining a Home and Finances

<table>
<thead>
<tr>
<th>Key Topics</th>
<th>Client Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>How to maintain and protect a home after moving in</td>
<td>Understand costs associated with homeownership, including taxes, insurance, maintenance, etc.</td>
</tr>
<tr>
<td>Home safety and security</td>
<td>Create emergency plan</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>Reduce energy usage</td>
</tr>
<tr>
<td>Preventive maintenance</td>
<td>Create plan for routine maintenance</td>
</tr>
<tr>
<td>Home repairs and improvements</td>
<td>Understand the difference between repairs and improvements</td>
</tr>
<tr>
<td>Working with a contractor</td>
<td>Understand how to work with a contractor</td>
</tr>
<tr>
<td>Community involvement</td>
<td>Get involved in the community</td>
</tr>
<tr>
<td>Record keeping</td>
<td>Set up a record-keeping system</td>
</tr>
<tr>
<td>Taxes</td>
<td>Understand tax issues associated with homeownership</td>
</tr>
<tr>
<td>Insurance</td>
<td>Understand different insurance policies associated with homeownership</td>
</tr>
<tr>
<td>What to do if you can't make a payment</td>
<td>Contact lender immediately if there are financial issues</td>
</tr>
<tr>
<td>Predatory lending and other financial pitfalls</td>
<td>Avoid high-risk loans</td>
</tr>
</tbody>
</table>
Counseling to Support a Strategy vs. Stand Alone Counseling

Option 1: **Support** a Strategy

- Homebuyer Strategy provides down payment and closing costs. *SHIP pays for classes*
- Foreclosure Prevention Strategy pays off past due amounts. *SHIP pays for counseling*

Option 2: **Stand Alone** Counseling

- Example: Offer community classes on Financial Management
Education Options for CLT Buyers

CLT topics are not covered in most classes

• OPTION: Include in the Class
• OPTION: In person Counseling
• OPTION: Phone Counseling

• In all cases, use CLT Homebuyer Education Module as a resource
Guidance from a CLT Counselor

Tanya Ward Benjamin

twardb1@gmail.com

• Local Government experience
• CLT Nonprofit experience
CLT Topic: Ownership Interest

- Rights of having title to Real Estate: possession, control, exclusion, enjoyment, disposition

- “Failure to pay such things as property taxes and homeowners association dues will always threaten your ownership rights, even if your home has no mortgage.”
Estates: Fee Simple and Leasehold

When you purchase property, you legally own an Estate

- **Fee simple** is the most common form of real estate ownership—the most complete form of ownership
- **Leasehold** estate means you have the right to use the property for a certain amount of time, then the right returns to owner
CLT Homeownership involves:

• Fee Simple estate in the House – buyer owns the Improvements on the land

• Leasehold estate in land – owner leases land to buyer for 99 years
  • Reason: Removing land value from home purchase makes the home purchase affordable
Teacher Notes in the CLT Module

**TEACHER NOTES**

Understanding title and bundle of rights lays a foundation for understanding estates. CLT homebuyers will need to understand the two estates they receive, fee simple estate in the house and leasehold estate in the land.

Be sure attendees understand that a mortgage limits their ability to destroy the property or otherwise do anything that affects their lender’s ability to recover the debt.
QUIZ 1 from the Module

Teacher’s Module includes answers and quiz guidance

2. Which of these is part of the bundle of rights in title to real estate?
   a. Possession
   b. Disposition
   c. Exclusion
   d. All of the above

5. What kind of estate(s) does one receive in CLT homeownership?
   a. Fee simple in land and improvements
   b. Fee simple in land and leasehold on improvements
   c. Leasehold on land and fee simple in improvements
   d. Leasehold on land and improvements

Attendees should be aware that there will be one additional quiz, and an end of module exam which they must pass. A 75% minimum score on the end of module exam is suggested as passing.
Guidance about Ownership Interest

Tanya Ward Benjamin
twardb1@gmail.com
CLT Topic: Ground Lease

• The Ground Lease explains the rights, responsibilities and benefits of the CLT purchase.

• Counselors can reinforce the stability, equity, tax benefits and the monthly ground lease payments.

• Each CLT in Florida is in an area with different land prices and has their own Boards. Ground Leases throughout Florida are similar but are not identical.
CLT Topic: Ground Lease

• Common Questions regarding Ownership Interest include:
  • What happens if I want to sell the home?
  • What happens to the Ground Lease if I die?
  • Can the Ground Lease fee increase as soon as I purchase the home?
  • Can I pay for the land and so that it is no longer a CLT?
  • What happens if I get married/divorced/have children?
CLT Topic: Ground Lease

• The answers to all questions are in the CLT Homebuyer Education Manual. Counselors can provide basic answers.

• Most CLTs require potential buyers to attend a Workshop which explains the CLT and the Ground Lease in detail.

• Counselors are encouraged to let potential buyers know that the CLT can provide detailed explanations for the questions.
QUIZ 2 from the Module

1. You are required to use the home you purchase as your primary residence. a. True b. False

2. You can sell your home to any buyer who can qualify for a mortgage. a. True b. False

3. The CLT may be able to help you avoid foreclosure by curing default of your mortgage on your behalf. A. True b. False

4. Your nephew, who does not live with you, can inherit and take possession of your house, even though he does not income-qualify. a. True b. False

5. As the homeowner, you are responsible for paying the property taxes on both your home and land a. True b. False
End of Module Exam - A Few Questions

3. What is the term of your ground lease?
   a. Forever  b. 99 years  c. 100 years  d. As long as you want.

14. As a CLT homeowner, you are responsible for maintaining both your home and land.
   a. True  b. False

15. If you want to make a major renovation to your home. What should you do?
   a. Proceed – it’s your house!  c. Wait until the ground lease ends
      b. Contact the CLT to make sure your plans are allowable by the ground lease  d. None of the above
CLT Topic: Selling Your Home

• Step #1 is to review your Ground Lease for personal re-education on the resale formula and the Ownership Interest.

• Step #2 - notify the CLT in writing of your Intent to Sell.

• Based on the Ground Lease the CLT will utilize one of three main types of formulas to calculate a fair resale price:
  • Appraisal based
  • Resale Fixed Rate
  • Market Indexed Rate
CLT Topic: Selling Your Home

• Step #3 - The CLT will notify you of the Resale Price and explain how it was determined.

• Step #4 – contact lender and find out “payoff price” which may be different to the most recent mortgage statement. Get estimate of seller Closing Costs.

• In most cases the CLT will find potential buyers from its client contact pool and nonprofit affiliates for eligible homebuyers. The homeowner is not required to find a new buyer.
Resale Factors

• Resale price increases annually based on a formula determined by the CLT.

• Three main types of resale formulas used by CLTs:
  • Appraisal Based
  • Fixed Rate
  • Indexed Rate

• Appraisal based would give some percentage of the total appreciation

• Fixed and Indexed rate designed to all an increase less than market. For example, if market prices increase 3.5% annually, the Fixed or Indexed Rate would be some number less, such as 2%

• All approaches intended to keep pace with incomes so the next buyer does not need subsidy
Resale Example

- The ground lease allows for the CLT homeowner to receive 1% increases compounded annually.
- The 3 BR, 2 BA house was appraised at $180,000 and the homeowner purchased the home for $160,000 ($20,000 assigned to the cost of the land).
- The CLT homeowner made a $4,000 down payment and received $10,000 in purchase assistance through the SHIP program at the time of purchase.
- The CLT homeowner originally borrowed $156,000 and has made principal payments of $35,004 on the first mortgage loan.
- Wants to sell the home after 10 years. The house is estimated to appraise at $240,000.
- Closing to take place on homeowner’s birthday: April 25th 😊
Calculating the Resale Price

• To calculate the resale price, find the Base Price by subtracting the amount of purchase assistance from the sales price: $160,000 - $10,000 = $150,000.

• Then calculate the resale value by multiplying the Base Price by the rate of increase allowed in the ground lease, repeating for each year in the house. In this case, this equals $167,350. This is called the Formula Price.

• Finally, to get the total sales price, also called the Purchase Option Price, add back in the purchase assistance amount to be assumed: $167,350 + $10,000 = $177,350.
Calculating the Return at Resale

- The proceeds of the sale will equal the sales price (Purchase Option Price) minus all costs due from the seller.

\[
\begin{align*}
\text{Purchase Option Price} & \quad \$177,350.00 \\
+ \text{Prorated Ground Lease Fee} & \quad \$5.65 \\
- \text{Costs due from Seller (Closing Costs \quad \$135,042.00}} & \quad \text{payoff of loan balances, taxes) } \\
= \text{Total due to seller} & \quad \$42,313.65
\end{align*}
\]
# Renting v CLT v Fee Simple Ownership

<table>
<thead>
<tr>
<th></th>
<th>Renting</th>
<th>CLT*</th>
<th>Fee Simple**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Payment</td>
<td>$1,500</td>
<td>$1,100</td>
<td>$1,300</td>
</tr>
<tr>
<td>Sales Price in 10 years</td>
<td>N/A</td>
<td>$177,350</td>
<td>$240,000</td>
</tr>
<tr>
<td>Return</td>
<td>$0</td>
<td>$42,314</td>
<td>$86,200</td>
</tr>
</tbody>
</table>

All numbers above are estimates based on current conditions and other assumptions.

*CLT home originally sold below market value at $160,000 with $10,000 purchase assistance

**Fee Simple home originally sold at market value of $180,000 with no purchase assistance
Key Points to Emphasize

• Homebuyer gains the stability and other benefits of homeownership
• Homebuyer has opportunity to have a market rate product at below market price
• Homebuyer can save significantly in monthly costs
• Homebuyer can build wealth and move to fee simple homeownership
Guidance about Ground Lease and Selling Home

Tanya Ward Benjamin
twardb1@gmail.com
Questions & Answers

Please complete Evaluation