



Homebuyer's Manual

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What is a Community Land Trust, Anyway?

The Community Land Trust (CLT) model of affordable housing was created over 30 years ago by the Institute for Community Economics (ICE) in response to the rising costs of housing, limited space for new construction, growing number of abandoned buildings and an aging housing stock in eastern U.S. cities. In looking for a creative and innovative way to address the housing problem at the time, the CLT model was born. Since that time, unfortunately, the same housing problems that plagued the eastern cities have spread across the country. In response, the CLT movement has spread as well, and there are now 120 communities across the U.S. that currently operate or are forming CLTs. In Minnesota, besides our own Land Trust here in Duluth, the Rondo Community Land Trust operates in St. Paul, and there are new Land Trusts forming in Minnetonka, Northfield, Washington County, Minneapolis, Woodbury, and Rochester.

The purposes of a Community Land Trust are to provide access to land and housing to people who are otherwise denied access; to increase long-term community control of neighborhood resources; to empower residents through involvement and participation in the organization; and to preserve the affordability of housing permanently. Though the program specifics vary among different CLTs, the basic model is the same. CLTs offer a balanced approach to ownership: the nonprofit trust owns the land and leases it for a nominal fee to individuals who own the buildings on the land. As the home is truly their own, it provides the homeowners with the same permanence and security as a conventional buyer, and they can use the land in the same way as any other homeowner.

In addition, CLTs are membership-based nonprofit organizations that offer a balanced approach to governance: members include residents of CLT housing, small businesses, neighborhood associations, corporations, and supportive individuals and families. The Board of Directors includes members from the above groups as well, with a third of the Board required to be representatives from CLT residents and low income areas. This ensures that CLT homeowners have an

active voice in the work of the Land Trust, and thus in their neighborhoods and cities. These distinguishing features are designed to allow the CLT to strike a balance between the interest of the community and the needs of individual residents.

Community Land Trusts help low and moderate income families benefit from the equity built through homeownership, and at the same time preserve the affordability of these homes so that future residents will have the same affordable homeownership opportunities. How do we do this? First, by owning the land and obtaining grant subsidies, CLTs are able to greatly reduce the initial housing cost to the potential buyer. Second, the land lease contains a resale provision which ensures that if the house is sold, it goes to another low or moderate income person. This is one of the reasons why it is called a *community* land trust; the same benefits that you received upon getting into your house, you agree to pass on to the next homeowner. The buyer agrees to limit the amount of profit they make on the house sale in order to insure that the property remains affordable for the next person. The beauty of this is that CLT's do not need additional subsidies each time the house resells; the permanent affordability is built into the lease for perpetuity.

Currently there are 107 Land Trust homes in Duluth and over 6,000 across the country, located in large cities, small towns and rural areas. While the focus of our work in Duluth has been single-family homes, CLTs nationwide also provide housing through affordable rental properties and housing co-ops, while developing community facilities, preserving open space and working with other community groups to promote economic opportunities. Additionally, because all land trusts are locally operated, they provide greater local control over land and housing ownership and build leadership among community residents. As the number of CLTs nationwide has more than doubled in the last ten years, and CLTs are now in 32 states, this model is creatively and cooperatively fulfilling a need for permanently affordable housing in this country.

Key Components of NCLT's Land Lease for Homeowners

The ground lease is the legally-binding agreement that gives the lessee/homeowner the right to use the land. It describes in full the rights and responsibilities of the lessee/homeowner and the Land Trust, as well as the restrictions that govern the relationship. The lease is designed to balance the interests of the lessee as a homeowner with the long-term interests of the Land Trust and the community.

There are a number of critical agreements that are defined by the ground lease, including:

99-year term

The 99-year lease provides long-term security and access for the homeowner. The lease can be renewed by the homeowner (or by his/her heirs) for an additional 99-year term.

Owner-occupancy

The homeowner (or his/her children, other immediate family members, or dependents) must live in the home for at least eight months out of the year.

Lease Fee

The homeowner pays a modest monthly land lease fee of \$25 directly to the Land Trust in exchange for access to and use of the leased premises.

Taxes and assessments

The homeowner is responsible for the payment of all real estate taxes on the house and land. In addition, the homeowner is responsible for all maintenance of the land and the home, just like any other homeowner.

Construction and alteration

The homeowner is allowed to make major alterations or improvements to the house (defined as any improvements that alter the exterior dimensions of the home or that cost more than \$10,000) only with the written permission of the Land Trust. The homeowner pays for the costs of any improvements he or she makes to the home, and the homeowner receives 100% of the value of those improvements (as determined by an appraiser) when he or she sells the home.

Resale of the home

When a Land Trust homeowner wants to sell his or her home, there are several options. The home can be sold to the Land Trust (which has the first option to purchase), it can be sold to an income-qualified buyer, or it can be given to the homeowner's children or heirs. No matter which course of action is taken, the Land Trust staff will help you through the process of selling your home.

Since Land Trust homes are not bought and sold on the open market, a formula is used to determine the sale price to the next buyer. This resale formula guarantees the homeowner all of their equity (the portion of the mortgage that has been paid off) plus 30 percent of the increase in market value of the home. Essentially, in exchange for buying the home at an affordable price, the homeowner must also sell the home at an affordable price. In this way, the affordability is preserved for the next lower-income family who buys the home.

Independent appraisals of the home will be obtained at the time of purchase and in preparation for the resale. The resale formula will be used to determine the sale price as in the following example:

Initial appraised value of home: \$85,000

Initial purchase price of home: \$70,000

Appraised value of home at resale: \$125,000

Increase in value of home (appreciation): \$40,000

30% of appreciation: \$12,000

Resale price of home: \$82,000

In the above example, the resale price is the initial price (\$70,000) plus 30 percent of the increase in value (\$12,000), which equals \$82,000. The seller receives all of the equity plus \$12,000 from the appreciation.

Northern Communities Land Trust

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2005 Income Guidelines

At the time of purchase, all Land Trust homebuyers must be earning 80% or less of Duluth Median Income. There is no penalty if a homeowner's income rises after the purchase of the home. The current income limits are as follows:

| <u>Household size</u> | <u>Income limit</u> |
|-----------------------|---------------------|
| 1 | \$30,600 |
| 2 | \$34,950 |
| 3 | \$39,300 |
| 4 | \$43,700 |
| 5 | \$47,150 |
| 6 | \$50,650 |
| 7 | \$54,150 |
| 8 | \$57,650 |

Interested homebuyers must provide documentation of income, including:

- Last 3 months checking and savings account statements.
- Last 4 pay stubs from employer(s) showing income for everyone in the household over 18 years of age.
- Documentation of any SSI, Disability, GA, MSA, child support or alimony payments that any household members receive.
- Federal income tax forms (W-2s and 1040) from the most recent year.



Land Trust homeowner Tamara Lee and her son, Nathan, enjoying their new home in 2003.

Three Ways to Buy a Home through the Land Trust

There currently are three different paths that you can take if you are interested in becoming a Land Trust homeowner.

1. Purchase one of our newly-constructed homes.
2. Purchase any home that is for sale in Duluth using our HOMELAND Program.
3. Purchase an existing Land Trust home from the homeowner when that homeowner decides to sell the home (this type of transaction is called a "resale").

The benefits of Land Trust homeownership are the same regardless of which path is taken to get there. All Land Trust homeowners are building equity, and all homeowners sign the same basic land lease that will keep the home permanently affordable. The programs do differ from one another in a few ways, however. To help you determine which path to Land Trust homeownership is right for you, we will now look at the options above in detail, beginning with new construction.

New Construction Features

Northern Communities Land Trust's current Strategic Plan calls for our organization to build 10-15 new affordable homes per year through 2005.

- Large "Affordability Gap Grants" (typically \$30,000-\$50,000) to reduce the purchase price
- Buyers do NOT need to be first-time homebuyers
- Buyers need only 1% of total purchase price in cash at closing
- Participating lenders: North Shore Bank (CASA), Wells Fargo (CHAMP), or US Bank (American Dream)
- High-quality construction standards
- Homes are designed to fit into the neighborhoods in which they are located
- High-efficiency natural gas furnaces
- No-maintenance cement fiberboard siding

New Homes Currently For Sale

Gary/New Duluth

12 W. House Street:

\$116,000-\$136,000*



*Purchase price depends on income and household size

**Up to \$30,000 additional grant available for
American Indian households

Upcoming New Construction in 2005-2006:

Lakeside/Lester Park

Hawk Ridge Estates :

7 single-family homes

Harbor View Redevelopment

2 townhomes

Lincoln Park & Observation Hill

5-7 single-family homes

Example Grant for NCLT New Home Purchase

Initial Appraised Value of Home: \$141,000

- Affordability Gap Grant: \$49,000

Price to Land Trust Homebuyer: \$92,000

NCLT Homebuyer Statistics: New Construction Buyers City Homes Project (2002-2003)



Average Household Size (3)

Average Income \$28,052

Average % of Median Income 66%

City Homes II - III Project (2003-2004)



Average Household Size (2)

Average Income \$24,576

Average % of Median Income 58%

City Homes IV Project (2004-2005)



Average Household Size (2)

Average Income \$25,373

Average % of Median Income 59%

The HOMELAND Program

(Home Ownership Means Equity, Legacy, Affordability, Neighbors, & Dreams)

The HOMELAND Program was started in 1999 to assist low and moderate income households in purchasing homes by providing resources to allow them to compete in Duluth's housing market.

HOMELAND is a buyer-initiated, scattered-site program, in which buyers choose from existing homes that are for sale in any neighborhood in the city of Duluth. Once a Land Trust homebuyer identifies a home that he or she would like to purchase, the Land Trust pays for a home inspection.

If the home passes the inspection, the Land Trust provides a downpayment grant to lower the purchase price of the home. After the home is purchased, a rehabilitation grant is used to correct deficiencies, make energy efficiency improvements, and bring the home up to Duluth Housing Code Standards. The rehab is overseen by the Housing and Redevelopment Authority of Duluth.

To date, 60 households have purchased homes through the program, and the Land Trust will help 10-20 additional households purchase homes in 2005-2006.



A Land Trust home in Lakeside, purchased in 2001 through the HOMELAND Program.



A Land Trust home in West Duluth, purchased in 2002 through the HOMELAND Program.

HOMELAND Program Features:

- \$15,000-\$25,000 downpayment grant
- Up to \$22,000 in rehab assistance
- Buyers need only 1% of total purchase price in cash at closing
- Participating lenders: North Shore Bank, Wells Fargo, US Bank or First Residential Mortgage
- Free home inspections
- Buyers choose from quality homes currently for sale ANYWHERE within Duluth city limits
- Compatible with other homeownership assistance programs, including Minnesota Housing Finance Agency (HAF & ECHO), Neighborhood Housing Services (HIP & HOP).

NCLT Homebuyer Statistics: the HOMELAND Program

HOMELAND Round One (1999-2000)

Average Income \$18,275
Average % of Median Income 53%
Average Home Mortgage \$45,842



HOMELAND Round Two (2001)

Average Income \$25,870
Average % of Median Income 64%
Average Home Mortgage \$56,750



HOMELAND Round Three (2002)

Average Income \$22,344
Average % of Median Income 53%
Average Home Mortgage \$64,700



HOMELAND Round Four (2003-2004)

Average Income \$21,450
Average % of Median Income 58%
Average Home Mortgage \$55,475



HOMELAND Round Five (2004-2005)

Average Income \$24,800
Average % of Median Income 56%
Average Home Mortgage \$69,500



Property Criteria for the HOMELAND Program

Lot Requirements:

- ❑ Adequate space between homes for maintenance
- ❑ Side lot lines at least 1 foot from house
- ❑ Rear lot lines at least 5 feet from house
- ❑ Front of home cannot abut sidewalk

Foundation/Structural Integrity:

- ❑ No evidence of substantial settlement
- ❑ No excessive dampness
- ❑ Concrete floor in basement
- ❑ Concrete or treated wood perimeter foundation
- ❑ No major structural defects

Exterior:

- ❑ Minimum of 5 years life expectancy of roof
- ❑ Serviceable siding
- ❑ Serviceable windows with screens

Interior:

- ❑ Separate cooking facilities
- ❑ Separate bathing facilities
- ❑ No excessive peeling of potentially lead-based paint
- ❑ Ventilated attics and crawl spaces
- ❑ Ventilated bathrooms (operable window or exhaust fan)
- ❑ Minimum of 6 square feet of kitchen countertop
- ❑ Adequate smoke detectors
- ❑ Bathroom & kitchen floors impervious to water

Mechanical:

- ❑ Operating central heat capable of heating dwelling
- ❑ Permanent walls and floor in utility rooms
- ❑ All wells and private sewage system approved by government authority
- ❑ Adequately functioning plumbing
- ❑ Minimum of 5 years life expectancy for hot water heater and furnace
- ❑ Reasonably insulated
- ❑ Minimum of 100 amp service
- ❑ Grounded circuits for all appliances
- ❑ No hazardous wiring or fixtures

Support for Homeowners

The Land Trust makes a long-term commitment to our homeowners. NCLT's Homeowner Support Committee--which consists of Land Trust homeowners, staff, Board members, and general community members--meets quarterly to address the Land Trust's responsibilities and relationship to its homeowners.

Homeowners are automatically members of the Land Trust, which means they are involved in the decision-making process for the organization, including electing the Board of Directors and voting on Land Trust policies at the Annual Meeting.

In the past, the Land Trust has helped several homeowners with foreclosure prevention and re-financing options. In addition, the organization hosts occasional social events for interested homeowners. The Land Trust staff also serves as a resource for homeowners, providing them with information about home maintenance and referrals to other agencies and community resources as needed.



The Grounds family: Alexis, Storm, David, and Van. The Grounds purchased their home through the Land Trust in 2001.

Purchasing Your Home Through the Land Trust

Buying a home through the Land Trust is very similar to buying any other home. Several aspects of the Land Trust application and purchase process are unique to our organization, however.

The checklist below provides a list of all of the Land Trust's application requirements, and is designed to help interested homebuyers keep track of their progress.

Of course, Land Trust staff members are available to guide you through the process. Please feel free to call our office at any time if you have any questions or if you would like to set up an appointment to discuss your application.

Land Trust Application & Purchase Checklist

The Application Process

- ∨ *Land Trust Orientation:* Applicant attends one session, led monthly by Land Trust staff.
- ∨ *Land Trust Application:* Fill out a paper application to help the Land Trust staff evaluate potential buyers. Applicant must attach income verification as specified on page 4.
- ∨ *Homebuyer Education Class:* Applicant must enroll in the Neighborhood Housing Services "Homestretch" class (727-8604). Applicants with credit scores below 620 must also take the Salvation Army "Homebuyers Club" money management course (722-7934 ext. 111).
- ∨ *Mortgage Approval:* Applicant submits to NCLT a copy of an approval letter from a participating lender, currently North Shore Bank of Commerce (Jill Winkler 733-5526), Wells Fargo (Andrew Slack 723-2724), US Bank (Troy Deadrick 723-2820), or First Residential Mortgage (Alec Grebis 952-736-5599).
- ∨ *Final Interview:* A staff member and a Board member from the Land Trust will interview potential buyers at the buyers' home or at the Land Trust office. This is another opportunity for applicants to ask questions and get clarification regarding the purchase of a home with the Land Trust. Land Trust staff will then recommend the buyer for final Board approval before closing.

After acceptance into the Land Trust program of your choice:

- ∨ *HOMELAND buyers* may begin to look for homes for sale anywhere in the city limits of Duluth.
- ∨ *Land Lease Review:* Buyers are required to review the Land Lease with an attorney prior to closing. Buyers may want to obtain legal counsel prior to the signing of a purchase agreement.
- ∨ *Purchase agreement signed.* Please allow at least 45 days between purchase agreement and closing. \$500 in earnest money is required for buyers of Land Trust new construction.
 - a. *Financing Contingency:* Mortgage financing from North Shore Mortgage (CASA), Wells Fargo Bank (CHAMP), or US Bank (American Dream), plus downpayment grant financing from NCLT.
 - b. *HOMELAND Inspection contingency:* Property Criteria Evaluation & Rehab Assessment completed by the Land Trust and the City of Duluth, indicating that less than \$20,000 in estimated repairs are necessary.
- ∨ *Appraisal* which finds the property equal or greater in value than the purchase price.
- ∨ *Homeowners insurance* secured by the homebuyer in accordance with lease.
- ∨ *HOMELAND buyers sign up for rehab* with the Housing and Redevelopment Authority of Duluth (HRA). Income documentation must be submitted to HRA at this time.
- ∨ *Closing and move-in.*
- ∨ *HOMELAND Rehab* completed and inspected.

How a Purchase with NCLT Compares after 10 Years for a Home Originally Worth \$75,000*

| | Purchase With NCLT | Conventional Purchase |
|--------------------------------------|---------------------------------|-------------------------------|
| Approx. Income Need to Buy | \$19,827 (6.5% interest) | \$27,985 (8% interest) |
| Original Purchase Price | \$60,000 (home only) | \$75,000 |
| Value at Sale 1 | \$66,000 (home only) | \$75,000 |
| Value at Resale | \$126,237 (home only) | \$143,451 |
| Amount of Appreciation | \$60,237 (home only) | \$68,451 |
| Owner's Share of Appreciation | \$18,071 (30%) | \$68,451 (100%) |
| Amount Originally Borrowed | \$60,000 | \$71,750 |
| Amount Still Owed | \$50,247 | \$62,525 |
| Sale Price of Home | \$78,071 | \$143,451 |
| Pay Remaining Loan Amount | \$50,247 | \$62,525 |
| Owner ends up with | \$27,824 | \$80,926 |
| Interest Paid | \$35,756 | \$53,534 |
| Principal Paid | \$9,752 | \$9,244 |
| Approx. Income of Next Buyer | \$24,911 (6.5% interest) | \$48,143 (8% interest) |
| | \$28,097 (8% interest) | |

*Assumptions:

- 1) The home is owned for 10 years.
- 2) Property values appreciate.
- 3) Taxes and insurance do not appreciate.
- 4) Initial HOMELAND Grant of \$15,000 to first buyer.
- 5) Interest rates of resale are identical to original sale.



A Land Trust home in Gary/
New Duluth, purchased in
2002 through HOMELAND.

Additional Notes:

- 1) If property values go down or remain constant, NCLT Leaseholders are not guaranteed a profit, and could take a loss, just like non-NCLT Leaseholders.
- 2) This example assumes no capital improvements take place.
- 3) While the return in cash from a sale after 10 years is much lower with the NCLT purchase, it is important to remember the NCLT buyer paid **\$166/month less** for a house payment during the 10 years. $\$166 \times 12 \text{ months} \times 10 \text{ years} = \$19,920$. $\$19,920$ (without figuring possible interest if the money was invested) added to the $\$27,824$ is a total of $\$47,744$ —a bit closer to the return of $\$80,926$ of the conventional deal.
- 4) It is also important to remember that $\$3750$ of the $\$80,054$ return on the conventional side is money paid as downpayment at the beginning of the 10 years, while there was **no downpayment needed** for the NCLT transaction.