



NMCDC Homebuyer Education Packet

The goal of the NMCDC's **Land Stewardship Program** is to ensure that attainable homeownership opportunities exist for individuals at all income levels, creating diverse and inclusive neighborhoods, now and into the future. While Missoula and the surrounding areas have a number of conservation trusts to protect open space and agricultural land, the **North-Missoula Community Development Corporation is one of only a few Community Land Trusts (CLT) in the state of Montana that develops and maintains permanently affordable housing.** There are many benefits to having a Community Land Trust in a community. These include:

- Promoting neighborhood preservation, revitalization and stability;
- Creating and maintaining housing that will remain affordable; and
- Providing access to land and housing for people of modest means.

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

...the benefits of living in an NMCDC 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
- The ability to accumulate earned and unearned market equity.

...the following homeowner responsibilities:

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

NMCDC Homebuyer Checklist & Timeline

If you are interested in applying to be entered into the lottery to purchase one of the seven townhouses on Front Street in downtown Missoula that will be sold and managed by the North Missoula Community Development Corporation, please follow the below steps:

1. Fill out and submit homebuyer application by the **February 1st deadline.**

- As part of the application you will need to provide:
 - Copies of pay stubs and bank statements for the last 2 full months
 - Copies of federal tax returns for the last 2 years (forms 1040 or 1040A and all subsequent schedules)
 - Proof of other types of income, self-employment and liquid assets
 - Pre-qualification letter from a lender
 - A check to cover the \$25 application fee
- Contact NMCDC to set up a personal orientation: (406) 829-0873
- Sign up to attend a homebuyer education workshop by calling Homeward at: 532-4663 x 10, or sign up for a qualifying education workshop of your choosing
- Sign up for a personal homebuyer counseling session with a HUD Approved Housing Counselor - current list of approved counseling agencies can be found at hud.gov

Montana Housing (Montana Board of Housing) will guarantee loans for buyers of Lee Gordon Place homes at 3.5% without mortgage insurance. Montana Housing is able to give this great deal due to the Community Land Trust investing in the land under the homes so buyers don't have to, which creates a favorable Loan to Value ratio for CLT home buyers.

If you are interested in accessing this financing to purchase a home at Lee Gordon Place, 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.

2. We will notify you if you are approved as income eligible and will be entered in the lottery.

- You must complete your 1-on-1 orientation with NMCDC staff prior to the February 15th lottery.

FEBRUARY 15th, 2019: LOTTERY

3. If selected in the February 15th lottery, but prior to closing on your home:

- Visit with an attorney and sign the letter of stipulation for the ground lease
- Obtain a pre-approval letter from a lender (different from pre-qualification letter)
- Get your Certificate of Completion of a homebuyer education course
- Complete your Homebuyer counseling session with a HUD-certified housing counselor (hud.gov)

If you have any questions about Lee Gordon Place, CLTs, or the homebuying process, please call NMCDC at (406)829-0873.

Income Limits – Who is Eligible for NMCDC Home ownership?

For the Lee Gordon Place project, all townhomes (2 bedrooms and 4 bedrooms) are only available to be purchased by households earning less than 80% of the Area Median Income. See below for what that means for your household. *Subject to change

Maximum Income (80% Missoula Area Median Income)*	\$39,450	\$45,050	\$50,700	\$56,300	\$60,850	\$65,350	\$69,850	\$74,350
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 directly related to your ability 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 debt does 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: FHA loan requires a minimum of 3.5% down-payment, 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 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.

NMCDC 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 home ownership 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 NMCDC 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 NMCDC 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 NMCDC 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 can not 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 NMCDC 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?

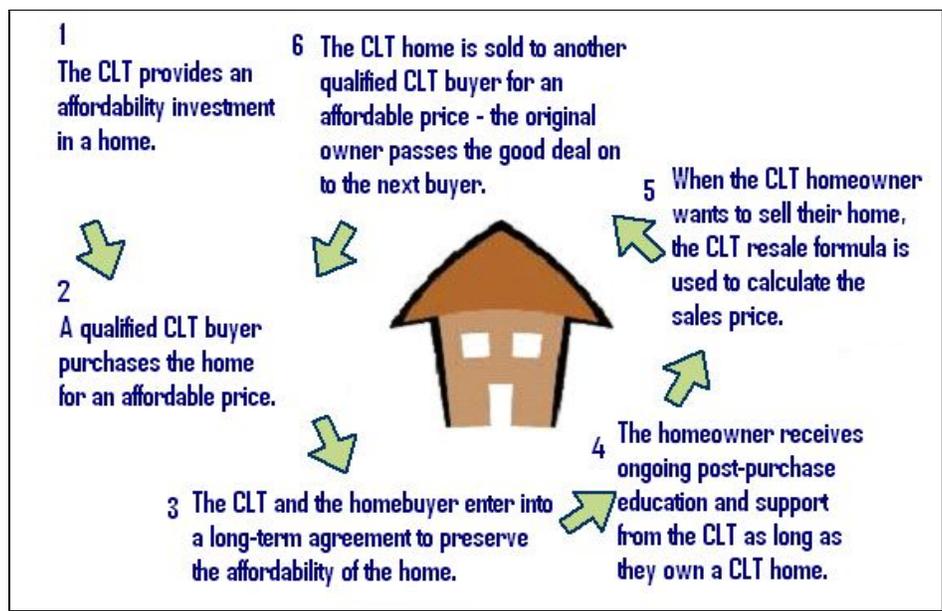
With single-family homes and townhouses, the CLT homeowner owns the house and other property improvements and the CLT owns the land beneath. The land is held in 'trust' for the benefit of the greater community. Recognizing this unique relationship, the CLT and the homeowner sign a ground lease that defines 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. NMCDC homeowners pay

\$30/month to NMCDC 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 NMCDC 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 NMCDC

- 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 and the ability to build credit.
- Community – CLT homeowners are important to NMCDC -- as part of a larger community of CLT homeowners, they are encouraged to apply for membership on NMCDC’s board of directors.
- Support – CLT homebuyers have the support of the NMCDC and its staff as long as they own their homes.
- If a homeowner is having trouble paying their mortgage and is entering foreclosure, NMCDC can help expedite a sale to a new homebuyer to help the homeowner out of a bad situation.
- Stability – home ownership 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 NMCDC to Non-CLT Home ownership and Renting

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, with the amount of equity being based on the resale formula instead of market forces. NMCDC 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 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.

What is the process for selling a CLT home?

When a CLT homeowner wants to move, they must notify NMCDC in order to get their 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 NMCDC 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 home ownership compares to renting a home and purchasing a home through the regular market over a seven-year period:

	Rental	CLT Ownership	Non-CLT Ownership
Purchasing the Home			
Initial Market Value of Home	N/A	\$279,497	\$279,497
Affordability Investment (subsidy)	N/A	\$109,497	N/A
Total Purchase Price	N/A	\$170,000	\$279,497
Monthly Housing Costs*			
Monthly Rent + Utilities	\$1200	N/A	N/A
Mortgage Payment: Principal and Interest	N/A	\$860	\$1,346
Taxes and Insurance and SID Fees	N/A	\$218*	\$333
Mortgage Insurance Premium	N/A	\$0.00*	\$193
NMCDC Ground Lease Fee	N/A	\$30	N/A
HOA Fees and Utilities	N/A	\$95	\$95
Total Monthly Housing Cost	\$1,200	\$1,203	\$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	\$17,850	N/A
Sale Price (original purchase price + appreciation)	N/A	\$187,850	\$338,191
Plus NMCDC Admin Fee (1% of resale price)	N/A	\$1,878	N/A
TOTAL RESALE PRICE	N/A	\$189,728	\$338,191
Financial Gain or Loss			
Amount of Mortgage Paid Off – Earned Equity	N/A	\$24,896	\$31,446
Plus Unearned Equity	\$0	\$17,850	\$58,694
Minus Realtor Fees* and CLT Admin Fee	N/A	-\$5,691)	-\$10,145)
Total Financial Gain or Loss	-\$100,800)	\$37,055	\$79,995
	Rental	CLT Ownership	Non-CLT Ownership
Additional Benefits			
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

Buying and Selling a NMDC Home Using the Resale Formula

Let's say you purchased your home through NMDC. It is worth \$279,497, but you pay \$170,000 because NMDC maintains ownership of the land and has invested subsidy into the building, totaling a value of \$109,497 of subsidy.



7 years later, you decide to sell your home to either NMDC 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.

NMDC or another income-qualified CLT homebuyer may purchase your home for what you originally paid (\$170,000), PLUS 1.5% of \$170,000 per year of ownership.

For each year you owned the home you earned \$2,550 (1.5%) in unearned equity in addition to what you paid down on your mortgage.

For a sale price of \$187,850 (\$170,000+\$17,850).

Then, NMDC adds a 1% admin fee onto the resale price, to be collected at closing, which brings the TOTAL resale price to: \$189,728.

NMCDC Resale Formula

The NMCDC resale formula gives NMCDC 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>

Review of the Ground Lease: NMCDC Homeowner Rights, Responsibilities, Requirements

The Ground Lease is a legally-binding long-term agreement between NMCDC and the homeowner. The Ground Lease spells out homeowner and NMCDC rights, responsibilities and requirements. By signing the Ground Lease, a home owner agrees with NMCDC 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 NMCDC 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. NMCDC 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, as long as the heir follows the restrictions of the ground lease. For Lee Gordon Place, there are special restrictions in place: 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 NMCDC administrative costs.

Home Improvements: Homeowners agree to seek permission from and provide information to NMCDC 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 NMCDC 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 NMCDC through an arbitration process, which involves impartial mediators instead of lawyers and judges.