

The Advantages of First Mortgage Lending to Buyers of Community Land Trust Homes

Understandably, lenders are interested in providing mortgage loans to individuals who punctually make payments, avoid delinquency and foreclosure, upkeep their properties, and may easily sell their homes. Homeownership opportunities through Community Land Trusts (CLTs) enable these outcomes, providing a sound mortgage lending opportunity that promotes CRA goals.

What do CLTs do?

1. Provide Affordable Homeownership Opportunities to Lower Income & Minority Households

While the legal mechanisms to make homes affordable may vary, typically CLTs use a ground lease. The CLT owns the land under the home; therefore, the homeowner only needs a mortgage loan to purchase the improvements (and they pay a nominal monthly fee to lease the land from the CLT). Some CLTs use deed-restricted covenants to make homes affordable. In these instances, the CLT provides a second mortgage loan that is typically structured as a 0% interest, due-on-sale loan. Since most CLTs are contributing at least 20% of the home's fair market value, the homebuyer is not typically required to have mortgage insurance.



2. Ensure their Homes Remain Permanently Affordable



In exchange for the opportunity to own and invest in a home, the household agrees to restrictions on their financial returns at resale. By restricting the resale price, the CLT is able to increase its investment in the property so that the home remains *permanently* affordable for low-to-moderate income buyers, resale after resale. The formula used to restrict the resale price of homes varies by CLT.

3. Steward Successful Homeowners & Well-maintained Homes

To help owners not only *attain* but *retain* homeownership, CLTs provide pre- and post-purchase education and support. While the policies and practices of CLTs vary, these stewardship activities target five major areas:

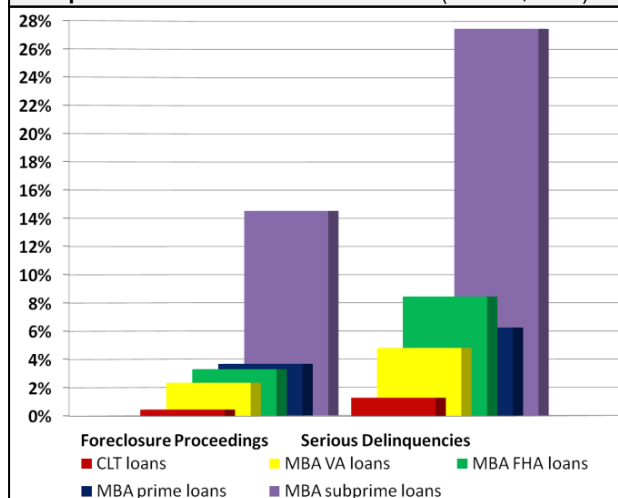
1. Educating buyers pre- and post-purchase
2. Overseeing loan acquisition for purchase, refinancing, and HELOCs
3. Promoting sound maintenance and repairs
4. Detecting and intervening with homeowners at risk of default or foreclosure
5. Interacting with first mortgage lenders

In 2010, the stewardship activities of CLTs prevented completed foreclosures for 82% of their homeowners that were at least 90 days delinquent or in foreclosure proceedings (Thaden, 2011).

How Have CLTs Performed?

Research supports that CLTs across the country outperform the market on delivering successful homeownership to lower income and minority households.

Q4 2010 rates of foreclosure proceedings & serious delinquencies in CLT loans & MBA loans (Thaden, 2011)



Conventional market-rate homeownership	CLT Homeownership
50% of lower income and minority homeowners did not retain homeownership for 5 years (Reid, 2005)	90% of lower income homeowners retained homeownership for 5 years (The Urban Institute, 2010)
8.57% of Q4 2010 mortgage loans—across all incomes—were seriously delinquent (MBA, 2011)	1.30% of Q4 2010 mortgage loans held by CLT homeowners were seriously delinquent (Thaden, 2011)
4.63% of Q4 2010 mortgage loans—across all income—were in foreclosure proceedings (MBA, 2011)	0.46% of Q4 2010 mortgage loans held by CLT homeowners were in foreclosure proceedings (Thaden, 2011)

Why Should Lenders Partner with CLTs?

The stewarding CLT has a vested interest in the success of the homeowner and the upkeep of the home, which benefits the first mortgage lender.

Whether a lending institution offers a portfolio mortgage product or sells the loans to an investor (Fannie, State Housing Finance Agency, and coming son FHA), the lending institution is participating in a low-risk investment that advances CRA goals.

- ✓ Home purchase loans are required to be affordable by the CLT.
- ✓ Refis & HELOCS that can compromise the first mortgage are prohibited by the CLT.
- ✓ Property maintenance is monitored and promoted by the CLT.
- ✓ Financial counseling and assistance is offered for homeowners during times of hardship by the CLT.
- ✓ Resales are facilitated by the CLT and typically expedient.
- ✓ If foreclosure occurs, the CLT or an eligible buyer on their waitlist will typically purchase the home.
- ✓ The lender may receive CRA credit.

Want to Know More?

CLT First Mortgage Lenders List: <http://www.clnetwork.org/index.php?fuseaction=Blog.dspBlogPost&postID=2767>
Fannie Mae: <https://www.efanniemae.com/sf/mortgageproducts/pdf/clt.pdf>
FHA: <http://www.clnetwork.org/index.php?fuseaction=Blog.dspBlogPost&postID=2749>
Research: http://www.lincolnst.edu/pubs/1936_Stable-Home-Ownership-in-a-Turbulent-Economy