

## Chapter 21

# Marketing, Buyer-Assistance, Buyer-Selection

Creating affordable homes for lower income people is one important part of the work undertaken by most CLTs, but their work does not end with the task of making the home available for purchase (and for some CLT programs the work doesn't *begin* until another entity has created the home). In any case, an important part of a CLT's work is the process of finding and assisting people who want, and are able, to take advantage of the ownership opportunity the CLT offers. It is not a simple process – especially when the goal is not just to see that the CLT homes are occupied but to see that the occupants will be successful as CLT homeowners. Furthermore it is a process that the CLT must expect to carry out more than once for each home it makes available. The CLT's work does not end with the first sale.

The process – whether for the initial sale of the home or a resale – entails a number of related, and sometimes closely interwoven, tasks, including the following:

- advertising the availability of the homes to potential buyers;
- counseling potential buyers to help them understand what it will take to buy a home (what they can afford, what it will take to qualify for financing, etc);
- orienting potential buyers so that they have a clear understanding of the nature of the CLT deal;
- documenting incomes of potential buyers to determine eligibility under the guidelines of subsidy sources;
- helping potential buyers qualify for leasehold mortgage financing on workable terms;
- selecting those to whom the CLT *will* sell homes;
- for those who have been selected, providing guidance and training – to assure that the transaction is properly completed and that the new homeowners will be equipped to succeed.

Of course, even after the completion of all these tasks, the CLT's work is still not done. See chapter 23 regarding “Post-Purchase Stewardship Tasks.”

### Who Will Carry Out Which Tasks?

In the case of some CLT programs, the CLT itself must carry out all of these tasks – both for the initial sale and at the time of resale. In the case of other programs, some of the tasks can be carried out by other players.

**Developer partners.** If the CLT is to be the long-term land owner and steward but is not the developer of the homes in question, then the entity that is the developer may, or may not, have a significant role in the initial marketing. If the homes have been produced by a separate nonprofit organization, that organization may simply act as “turn-key developer,” turning over ownership of land and houses to the CLT on the completion of development – along with its responsibility for marketing (and all other responsibilities). However if ownership of the land will not be transferred to the CLT until the homes are sold, the developer will have a substantial interest in seeing that the homes are sold expeditiously and may therefore insist on a substantial role in marketing the homes. In

any of these situations, it is important for the CLT to have a clear written agreement with its developer partner as to who will be responsible for carrying out what tasks.

It is also important that the CLT ensure that the homes are clearly marketed *as CLT homes* – in other words that the purchasers will have a clear understanding of how CLT homeownership differs from conventional homeownership. A developer-partner that must bear the costs entailed in holding the real estate until it can be sold can be tempted to de-emphasize the ways in which the CLT homes are different. Finally, with any such CLT-developer relationship, it is important to remember that, while the developers may play a significant role in the initial marketing of homes, they will have no involvement with resales, which, for better or worse, will be the CLT's responsibility.

**Partners re. “inclusionary units.”** If the CLT homes are a part of a larger for-profit development – as products of an inclusionary zoning requirement or other government efforts to create affordable housing opportunities for lower income households – then the developer may advertise and promote the “affordable units” as well as the market-rate units, and the government agency responsible for creating the affordability of these units may play a role in marketing and selecting purchasers or in establishing guidelines for these tasks. The question of who will perform what tasks – and under what guidelines – will be an important consideration in negotiating the CLT's relationship with such a government agency.

**Habitat partners.** CLT partnerships with Habitat for Humanity chapters are increasingly common and involve some distinctive practices and considerations. Normally in these situations the Habitat chapter will have full responsibility not only for developing the homes but for selecting and orienting at least the initial purchasers and for financing those purchases. The CLT's initial role will be limited to entering into ground lease arrangements with the purchasers and making sure that they understand their rights and responsibilities under the ground lease (which may be modified in certain ways to give the Habitat chapter an ongoing role as the homeowner's sponsor and mortgagee).

The marketing situation may become more complicated, however, at the time of resale. The Habitat chapter may want to play a role in selecting the next purchaser – especially if the first purchaser's tenure is relatively short – and may be prepared to finance that purchase on the same extremely affordable terms as the first. But over the longer term it is more likely that Habitat will want to leave the responsibility of dealing with resales to the CLT. It is therefore important that the two organizations enter into a carefully thought-out agreement regarding who will do what, under what future circumstances.

**Homebuyer counseling programs.** Counseling potential homebuyers is a critically important component of the overall process. Part or all of the necessary counseling may be carried out by the CLT – or by a “homeownership center” operated by the CLT but serving non-CLT homebuyers as well as those interested in CLT homes. Or a major part of the necessary counseling may be carried out by separate, specialized nonprofit programs (and a limited part may be carried out by mortgage lenders). CLTs will normally want to take advantage of any appropriate counseling that is available from other sources.

It is important, in working with such programs, that the CLT know exactly what information is being received by potential CLT homebuyers from such sources. Have

those sources accurately described the nature of CLT homeownership? In what ways should the CLT's own homebuyer orientation efforts supplement or qualify the information presented by separate counseling programs? Even when counseling provided by other sources is excellent in all respects, a CLT should expect to have an orientation program, carried out by its own personnel, for those who actually purchase CLT homes – if for no other reason than to personalize the relationship between the homebuyer and the CLT.

**Working with realtors.** CLTs may work with realtors in various ways. Most CLTs will want to explain their programs to local realtors and perhaps encourage them to mention these programs to lower income homebuyers who may not be able to afford homes available in the conventional market. But whether a CLT will actually contract with a real estate broker to market CLT homes is another matter. CLTs that do utilize brokers in a relatively conventional marketing role are likely to be those serving moderate income households and/or working with mixed income projects, where a broker may handle all of the units in the project. Those serving low and very low income households and/or working in low-income neighborhoods are more likely not to sell their homes through brokers. At least for the latter CLT programs, the disadvantages of working through brokers include the cost added by commissions, the need for special counseling and orientation that can better be provided by the CLT than by a realtor, the fact that most realtors have relatively little experience in working with low-income people, and the fact that most realtors are not likely to represent the CLT model as accurately or as persuasively as CLT personnel. Potential advantages of listing homes with brokers include the opportunity to utilize professional real estate sales people, and to reach potential buyers who are actively shopping for homes through a realtor.

It should be emphasized that contractual relationships between CLTs and realtors need not be conventional seller-broker relationships in all respects. CLTs may be able to negotiate special arrangements with local brokers whereby real estate agents and CLT staff can cooperate – each carrying out those parts of the marketing process that they are best positioned for – and whereby realtors' commissions may be reduced to reflect a more limited role, and/or to reflect a realtor's willingness to provide some services to a nonprofit on a pro bono or reduced-fee basis. At least one CLT has a close relationship with a nonprofit realty firm that specializes in the role of buyer's agent for low-income people and in selling homes in low-income neighborhoods.

A CLT may also have a special relationship with one or more brokers in connection with a "buyer-initiated program." With such a program, the CLT is not commissioning the realtor to market CLT-owned property; the CLT will be a co-purchaser of homes offered for sale by others through the realtor (with the CLT subsidizing the price and taking title to the land). It is in the CLT's interest that realtors understand the guidelines of the CLT's buyer-initiated program – what households will qualify for the program, how much subsidy they can qualify for, what housing types and price ranges (or what specific homes) are eligible – and it is helpful for the CLT and the realtor to agree on a process for determining who will handle what parts of the qualification process, and who will provide what kinds of assistance to those who do qualify. (See the note on buyer-initiated programs below.)

Finally, it should be noted that some CLTs have staff members who are themselves licensed real estate agents, which may be useful when it comes to developing cooperative

arrangements with other realtors – for instance in the case of buyer-initiated programs. In the matter of marketing CLT homes, however, the staff person who is a licensed agent will not necessarily be able to do a great deal more than other CLT staff can do.

## **Advertising**

The fact that your CLT is providing badly needed housing does not mean that crowds of eager people will be lining up at your door. Even in those housing markets where affordable housing is in the shortest supply, advertising is essential. And it must be timely and extensive enough to attract the attention of a great many more people than you have homes to sell. To sell one home you will probably need to identify a number of qualified potential buyers, and to find those qualified buyers you will need to generate many times that number of applications. And to generate that number of applications you will need to attract the attention of many times that number of people.

**When to advertise.** Obviously you don't want to wait until homes are ready for occupancy before beginning to advertise their availability. By that time you will want, if buyers are not already under contract, at least to have accumulated a sufficient pool of potential buyers whose household incomes are in the necessary range to qualify for the subsidies being utilized and who can reasonably be expected to qualify for mortgage financing as well. This means that advertising will need to have begun perhaps several months earlier. In fact, for most CLT programs, some form of advertising should be more or less continuous, with more concentrated efforts mounted if and when larger projects are approaching completion.

**Where to advertise.** Where can you make contact with people who will be interested in and can qualify for CLT homeownership? The first point to be made is that you cannot count on finding them among those actively shopping for homes. Most potential CLT homebuyers probably do not regularly check homes for sale in the real estate pages of the local paper or the web sites of local realtors (nor are they likely to check your CLT's web site until they have somehow learned that your CLT might be able to help them). They are likely to be people who do not believe homeownership is possible for them – either because they have tried and failed to find homes they could afford or have tried and failed to qualify for the amount of mortgage financing they believe they would need, or, more likely, because they simply assume homeownership is out of reach and don't know how to reach for it. They are tenants. Most of them have never owned a home.

Advertising targeted to such people can be posted in places they typically spend time or pass through in their everyday lives: apartment complexes, workplaces, schools, daycare centers, places of worship, stores, Laundromats – any frequented places where it is possible to post posters or leave leaflets. Radio and television ads can also be an effective way to reach people with an initial message, as can strategically placed ads in local print media (including weekly “shopper” publications). But the search for potential buyers may also need to be more proactive. Think of the institutions that might have reason to know of income-qualified people who may be ready to think about homeownership. These may include the local housing authority and other rental projects, municipal housing agencies, other nonprofits (especially those engaged in homebuyer counseling), and friendly realtors or mortgage lenders who may know of solid candidates who do not quite qualify for conventional home purchase. Contact them; ask for names

and ask them, also, to refer people to the CLT who they think might be right for its program. You cannot expect to get as many names through these referrals as you can get in response to your advertising, but the chances are that a much higher percentage of them will be appropriate candidates for what you are offering.

**Initial message.** The first step is to stir the interest of people who might be interested and give them a sense that the CLT might really be able to help them. The message should emphasize both the desirability of the homes being offered and the idea that owning these homes is a real possibility for those who don't otherwise have homeownership opportunities. Photographs are important. Information about location is important. Information about monthly payments (rather than total prices) is important. Information on how CLT homeownership works will of course be important, but it can come later. Finally the initial message should normally include the time and place of public presentations where interested people can get more information.

### **Follow-Up Presentations and Introduction of the CLT**

Group presentations for people whose interest has been engaged by your advertising are a typical second step in the marketing process. At the same time, these presentations are typically the first step in the process of introducing the CLT model. In planning them, however, it is important to remember that most, if not all, of those who attend will be there because they are interested in owning a home, not because they are interested in becoming a CLT member. You will want to present some basic information about the CLT, itself, but you won't want to spend a lot of time talking about organizational details when what people want is details about the housing – where it is, what it will cost (approximate monthly payments and down payment), what it takes to qualify as a purchaser and how the application-qualification process works.

You should spend a certain amount of time, however, in providing a clear basic explanation of the CLT's long-term relationship with the homes and the homeowner – in terms of both the assistance the CLT will provide and the restrictions on occupancy and resale that will be established by the ground lease. People do not need to leave the meeting knowing all about the CLT as an organization or all about the details of the ground lease, but they should certainly leave with a general understanding of how CLT homeownership differs from conventional homeownership – you don't want this difference to come as a big surprise when they are halfway through the application-qualification process – and they should leave with a general sense of the CLT as a friendly community organization that can give them more support and assistance than they would have if they were to purchase a home through conventional channels. (Orientation regarding the ground lease and CLT membership should become more detailed as potential buyers advance through the application-qualification process, and should culminate in measures to assure a thorough understanding on the part of those who finally become actual buyers.)

Oral presentations at these events should be given by CLT representatives who are able both to give a clear and lively description of the CLT's homeownership program and to give accurate answers to whatever specific questions are asked (while avoiding extended technical explanations). In general, basic presentations should be kept relatively short, with plenty of time left for questions. Information is likely to be

comprehended more clearly when highlighted in answers to specific questions than when embedded in a longer presentation.

Photographs of CLT homes – both the available homes that are being marketed and homes that are already occupied – should be a prominent part of these presentations. Short videos can be even better.

At some point during or at the end of the presentation, participants who have any interest in pursuing the possibility of CLT homeownership should be asked to fill out a simple form, which may or may not be treated as a homebuyer application form but which should at least provide the CLT with contact information, household size and approximate household income.

### **The Application-Qualification-Counseling Process**

The various steps in this process may occur in different sequences. The most obvious sequence involves the completion of an application form by a potential homebuyer, with whom the CLT then follows up to discuss that person's situation and then perhaps to document household income and other financial data, which may then lead to homebuyer counseling delivered either by the CLT or another organization. But it is also possible that a potential homebuyer will be referred to the CLT from a homebuyer counseling program (or possibly a mortgage lending program) where the person's household finances have already been discussed and documented and the person's basic eligibility for CLT homeownership has already been determined. Even in these cases, however, the CLT will want to confirm applicants' qualifications, discuss their situations with them, and clarify their needs and the likelihood that the homes the CLT is offering for sale can meet those needs.

**Application forms.** Application forms provide a formal mechanism by which potential buyers can tell the CLT that they are in fact interested in pursuing the possibility of buying a CLT home. The forms can be tailored to suit the particular CLT program and its goals and resident selection criteria, but what is essential is that they function as an efficient means of gathering the information that will be needed to determine whether an applicant meets the threshold requirements for the program in question and whether the size, location and other features of particular CLT homes will be appropriate for the applicant.

**Basic eligibility criteria.** In determining whether applicants meet basic requirements, three categories of information are critical: household income, household size, and "bankability." Virtually all CLT homes are subsidized to make them affordable for households with incomes that do not exceed specified levels, which are normally defined in terms of percentages of median annual income for the geographical area in question, adjusted for household size, as calculated and reported annually by HUD. The homes you are marketing may all be subsidized through a program requiring that they be sold to buyers with incomes below, say, 80% of area median income (adjusted for family size). Therefore, the first questions to be answered for an applicant are how many people are there in the household and what is the total annual income. If the annual income is *low* enough so that it does not exceed the limit for that household size for the subsidy program(s) in question, then the next question is whether the household's income is *high* enough to qualify for the mortgage financing that will be needed to purchase a home for the price that the CLT must receive.

For all applicants whose household incomes are low enough on the one hand and high enough on the other hand, you will then need to look at the other factors that will determine whether a lender will approve them for the necessary financing. These factors include their credit scores and the amount of existing debt that they must service in addition to whatever mortgage debt they may take on.

### **Final Selection and Preparation for Sale**

At any given time you may or may not have more qualified, ready buyers than you have CLT homes to sell. When you do have a surplus of qualified buyers, you may either allow the final determination to be made through a lottery or you may establish a selection process whereby qualified buyers are compared and a final selection is made based on stated selection priorities. Such a process must be careful, fair and transparent. In the absence of such a process, you should consider making the selection through a lottery.

**Priorities.** Selection *priorities* should be clearly distinguished from qualification *requirements*. The nature of these priorities and the process by which they are applied should be explained to all applicants. Common priorities may include the following.

*Income and affordability.* Among the applicants who are income-qualified, you may choose to assign a *higher* priority to those with lower incomes and therefore greater need. However, you might also choose to give a *lower* priority to applicants with incomes so low that they just barely qualify for the necessary mortgage financing and may therefore be more likely to have trouble making the mortgage payments.

*Household-size and composition.* Among applicants whose household size is acceptable for a given home, you may assign a higher priority to those who will make the best or most appropriate use of the home. For instance, you may choose to sell a four-bedroom home to a larger family rather than to a smaller family that could make do with a three-bedroom home. You may also consider the age and gender of children and the existence of any disabilities within the family for which the home would be particularly suitable (e.g., it would normally be a high priority to sell a wheel-chair-accessible home to a family that required wheel-chair-accessibility rather than to one that did not require it).

*Existing local residency.* You may choose to assign a higher priority to existing residents of the local area than to buyers who are just moving into the area.

*Travel efficiency.* You may assign a high priority to a household for which the location of the home will result in limited or energy-efficient travel to work, school and other necessary destinations.

*First-time homebuyers.* Even if your program is not limited to first-time homebuyers, you may choose to assign a higher priority to such buyers.

The process of considering multiple priorities can of course be complicated. You may simplify the matter somewhat by “prioritizing your priorities” – for instance by adopting a resident-selection policy that specifies that the *first* consideration will be to look for the family with lowest income that will still provide reasonable coverage of the necessary debt service. With such a policy you might consider secondary priorities only if you have multiple applicants who are roughly equal with regard to the first consideration.

**Who makes final decisions?** Ultimately the board of directors has final responsibility for decisions regarding the sale of real estate, but the board can receive recommendations from staff or a committee, and/or can authorize staff or a committee to make decisions based on board-approved criteria. Some CLTs maintain a “resident selection committee” that includes some combination of CLT homeowners, board members, and staff. Such a committee may interview final candidates in order to confirm their understanding and acceptance of the “CLT deal” – but the committee should resist the inclination to allow interviews to become “popularity contests.” In general, interview results should be treated as just one among a number of criteria. In any case, whoever makes the final decision should have a thorough understanding of the CLT’s selection priorities and all policies relating to the process through which they are to be applied.

**Fair housing restrictions.** The 1968 Fair Housing Act states: “In General, it shall be unlawful for any person or other entity whose business includes engaging in residential real estate-related transactions to discriminate against any person in making available such a transaction, or in the terms or conditions of such a transaction, because of race, color, religion, sex, handicap, familial status, or national origin.”<sup>i</sup>

Exactly what constitutes illegal discrimination in specific circumstances can of course be a matter of interpretation, and can be affected by state as well as federal law. If you have any doubt about whether any aspect of your buyer-selection policies and procedures could be considered illegally discriminatory, you should consult an attorney with an up-to-date knowledge of fair housing law within your jurisdiction.

**Managing waiting lists.** All CLTs that are successfully marketing homeownership opportunities should expect that they will sometimes have more qualified applicants than available homes. In fact it should normally be a CLT’s goal to maintain a waiting list of qualified applicants in order to avoid the cost of owning ready-to-occupy but unsold homes for significant periods of time, and in order to have qualified buyers to whom the CLT can assign its purchase option when an existing CLT homeowner wants to sell. Nonetheless, a waiting list that is too long can be a problem.

Ideally a CLT would like to have qualified buyers always available without having to make any of them wait more than a few months for an opportunity to purchase. But, especially for smaller CLT programs that can offer only occasional home purchase opportunities, it is difficult to strike this ideal balance between supply and demand. When demand does outstrip supply and the waiting list lengthens, it becomes important that the CLT maintain regular communication with those who are waiting. They should be kept posted on what homes may be available when, and they should be asked, regularly, to notify the CLT of any changes in their status and interests (are they still looking for a home; do they still want to buy a CLT home?) and any changes in their household income, household size, or overall debt service obligations.

Those on a waiting list – who will have been prequalified for a certain amount of mortgage financing – may also be reminded from time to time that their status as mortgage loan applicants can change for various reasons, including the effects of any additional debt service obligations that they may assume while waiting – for instance by taking out a loan for a new car.

Those on a waiting list can also be offered various forms of training or counseling during the waiting period. Their involvement in such programs is likely to be helpful to



them whether they do proceed to buy a CLT home or not, and will keep communication open between them and the CLT.

**Final orientation for those selected to purchase.** The time between the selection of a buyer and the closing of the sale to that buyer is the time to make sure that the buyer has a full, clear understanding – with support from legal counsel – of what she is buying and of the nature of CLT homeownership. See Chapter 22, “CLT Real Estate Transactions,” for discussion of items to be addressed during this period, including purchase and sale contracts, letters of agreement and attorney’s acknowledgement, etc.

**Training.** Some kinds of homeowner training may be provided – or may at least be launched – during this period. It is a time when buyers will of course be focused on the process of becoming homeowners and are therefore likely to be receptive to training that will help them succeed as homeowners. It is an excellent time to launch programs aimed at establishing sound financial management practices and sound home maintenance practices. See Chapter 23, “Post-Purchase Stewardship Tasks,” for more on homeowner training programs.

### **A Note on Buyer-Initiated Programs**

As mentioned above in connection with “working with realtors,” a number of CLTs operate “buyer-initiated” programs (sometimes called “buyer-driven” or “buyer’s choice” programs), which offer some significant advantages, but also have some potential long-term disadvantages.

The basic advantage of these programs is that the CLT is relieved of the need to either develop or market the homes sold in this way (though with some such programs the CLT may be involved in rehabbing buyer-selected homes). Buyer-initiated programs are therefore a relatively easy and inexpensive way for a CLT to help low-income homebuyers and to build a portfolio of permanently affordable resident-owned homes.

The basic disadvantage is that the CLT has less control of the nature of the portfolio that is being accumulated. There is a risk that the organization, in deciding what homes will be eligible, may be tempted to sacrifice the long-term quality and marketability of the homes because it is overly focused on the number of home it wants to sell in the present timeframe. It is therefore important that the CLT screen potential properties carefully before making them eligible for buyer-initiated acquisition. Homes that most CLTs will want to avoid in most cases include:

- homes that are likely to need repairs in the foreseeable future (unless funding is available to see that repairs are done at the outset);
- homes that are likely to require an amount or type of maintenance that will be a problem for low-income first-time homebuyers;
- homes that are on the upper margin of affordability with the subsidy that is available today;
- homes that, though they might be attractive to a particular current home-seeker, can be expected to have limited marketability over time;
- homes in deteriorating neighborhoods (unless the CLT has specifically targeted the neighborhood for improvement efforts);
- homes outside the CLT’s normal service area.

In general it is a good idea for those administering a buyer-initiated program to ask the question, “Is this a home that ten years from now we would want to own and need to find a buyer for?”

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<sup>i</sup> **Sec. 805. [42 U.S.C. 3605]**