

**ISSUE: REMOVE FINANCING BARRIERS FOR HOMES
WITH LAND LEASES FROM COMMUNITY LAND TRUSTS?**

The Institute for Community Economics reports that it has worked successfully with Fannie Mae to create a Fannie Mae CLT mortgage product. Additionally, the Fannie Mae Foundation is promoting CLTs as value-recapture mechanisms for gentrifying communities.

The ICE identified the following finance barriers:

1. **FHA Insurance (Single Family).** Reportedly, FHA insists on a rider that ICE considers onerous. The rider requires that the CLT resale restrictions be extinguished, which according to ICE defeats the purpose of permanent affordability.
2. **FHA Insurance (Multifamily).** Reportedly, some CLTs have encountered problems in obtaining project-level financing because FHA objects to the resale restrictions inherent in CLT projects. This could relate to co-ops or to normal multifamily loans.

The resale restrictions consist of:

- a) The leaseholder's obligation to sell for a price not to exceed a formula price (similar to the limited equity co-op formula but varying from CLT to CLT).
- b) The CLT's option to repurchase the property at the same price.
- c) The CLT's right to terminate the ground lease, as an ultimate backstop against leaseholder noncompliance.
- d) Some CLT ground leases include restrictions on mortgage provisions, for example: a 120 day cure period for the CLT in the event of payment default, and an additional time period during which the CLT could pay off the defaulted mortgage without risk of foreclosure.

The ICE points out that standard CLT land leases provide for early notification by the CLT to the leaseholder's lender that the leaseholder may be at risk of falling behind in the payments. Generally, the CLT works with the leaseholder to avoid default, thereby (in theory) reducing risk to FHA.

Factors to Consider: By comparison with deed restrictions, CLT land leases may be more likely to be respected by a variety of courts over the long term. By comparison to a standard co-op structure, CLTs are more likely to result in very long-term affordability (co-op boards are often pressured to allow sales at or near market value, and sometimes succumb to this pressure).