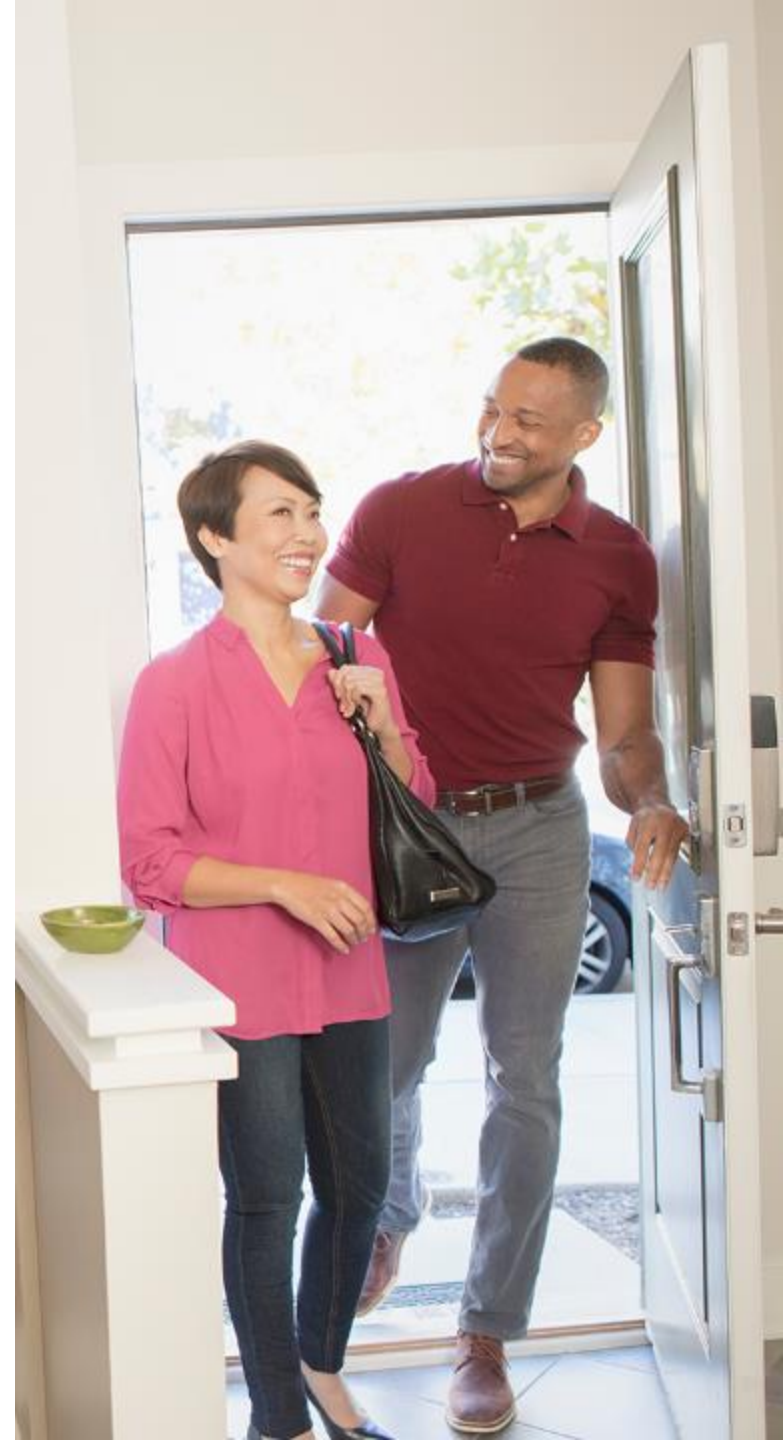




Community Land Trusts and Fannie Mae

An introduction to Community
Land Trusts and Fannie Mae
policies on purchasing loans
on CLT properties

May 2019



An important note about the seminar content

While every effort has been made to ensure the reliability of the session content, Fannie Mae's *Selling* and *Servicing Guides* and their updates, including *Guide* Announcements and Release Notes, are the official statements of Fannie Mae's policies and procedures and control in the event of discrepancies between the information in this seminar and the *Guides*.





**How we'll
spend our time
together today:**

- **Introduction to Community Land Trusts**
- **Fannie Mae Policies on CLTs**
- **Eligibility Parameters**
- **Appraisal Process**
- **The CLT Ground Lease and Form 2100**
- **Third Party Notification**
- **Underwriting and Delivery**
- **Resources**



Introduction to Community Land Trusts

Community Land Trusts (CLTs) are an important shared equity model for preserving affordable housing

- **CLTs are nonprofit organizations developed by communities or public entities to create and preserve long-term, affordable housing for low - to moderate-income residents.**
- **CLTs purchase homes in their communities and create a long-term ground lease under which low- to moderate-income families can become homeowners at affordable monthly ground rents.**
- **The ground lease includes provisions that require the continued use of the property for low- to moderate-income households in the future.**



Eligibility for the Community Land Trust

Eligible community land trusts must:

- Be nonprofit organizations or public entities, such as state or local governments, counties, school districts, universities, or colleges.
- Have the capacity to administer leasehold mortgages.
- Have at least 2 years of experience in successfully managing affordable housing.

Lender must:

- Review staff resumes, experience and skills to insure that the CLT has the skills to manage the housing program.
- Review the most current annual report to confirm successful performance of the CLT in the most current year.
- Review ground lease to insure it meets our eligibility criteria, which is covered later in this presentation.

A CLT checklist document is available at [fanniemae.com](https://www.fanniemae.com) to assist lenders in this review.



Fannie Mae Policies on Community Land Trusts

- Fannie Mae purchases or securitizes first mortgage loans secured by a property owned by a community land trust (CLT) with eligible ground leases.
- The CLT product feature is available to lenders as a standard *Selling Guide* product feature.
- Eligible properties include 1 or 2 unit owner occupied properties.
- All property types* are eligible except for units in co-ops or manufactured homes (unless located in a Fannie Mae-approved condo or PUD project)

*Refer to *Selling Guide* for more details on eligibility guidelines for property types



Fannie Mae Policies on Community Land Trusts (cont.)

- The leasehold estate created by the community land trust ground lease must constitute real property under applicable law.
- Lender must confirm that all ground lease rents and other payments or assessments that have come due have been paid before it delivers the mortgage to Fannie Mae.
- Borrower must not be in default under any other provisions of the ground lease, nor may the ground lessor have claimed such a default.
- Loan products include standard fixed rate and ARM products.



Loan Purpose and Insurance

Loan Purpose

- Purchase
- Limited cash-out refinance (LCOR)*
- Cash-out refinance* is permitted but CLT may limit the cash out to protect the subsidy invested in the property

*Lender must document that the CLT approved either a LCOR or a Cash-out refinance

Insurance and Title Requirements

- Standard MI coverage applies
- Hazard insurance must be in-effect at closing.
- Lender's title insurance policy or endorsement to the policy must confirm these six elements:
 - Recording of CLT ground lease or ground lease memorandum
 - Recording of [Form 2100](#)
 - CLT mortgage is a first lien on leasehold estate and all improvements
 - No existing mortgages or other liens on fee estate
 - Ground lessor's revisionary interest is subordinate to CLT mortgage
 - No other occupancy or resale restrictions or covenants that "run with the land" that have been recorded apart from ground lease, except those permitted by Form 2100.



Appraisal Guidelines

Appraisal

- Lender must ensure appraiser is knowledgeable and experienced in appraisal techniques related to community land trusts.
- Appraiser must analyze property subject to land lease and the understanding that the price may be significantly less than market value of the leasehold estate.
- To develop the opinion of value, the appraiser must use a three-step process and determine:
 - Fee simple value of the property by using comparable sales of similar properties owned as fee simple estates.
 - Applicable capitalization rate which converts income from ground lease into a leased fee value.
 - Leasehold value by reducing fee simple value by the lease fee value.
- The appraiser must attach an addendum to the appraisal report to provide any information that cannot otherwise be presented on the appraisal report form.

Land Records

- The land records for the subject property must include adoption of the terms and conditions that are incorporated in this ground lease rider. Fannie Mae's approval is required if the rider is modified or is not executed.



Loan Documents

Ground Lease

- Must be valid, enforceable, and in full force and effect.
- Term of the estate created by the ground lease must extend for at least five years beyond the maturity date of the mortgage.
- May include resale restrictions and third party notification requirements (see next slide).
- Must be based on either the *National Community Land Trust Network (NCLTN) 2011 CLT Network Model Ground Lease* or the *Institute for Community Economics (ICE) Model Ground Lease*.

Fannie Mae Form 2100

- Must be used as part of the transaction.
- Ensures that the ground lease is in conformity with Fannie Mae requirements.
- Removes restrictions that may be included in the ground lease that could affect property value.
- Must be executed by the borrower and recorded with the ground lease.



Resale Restrictions and Third Party Notification

Resale Restrictions

- May be used to limit future property purchasers to low and moderate-income families or limit maximum sales price of property.
- Must terminate automatically on foreclosure (or expiration of any applicable redemption period) or acceptance of a deed-in-lieu of foreclosure for the leasehold mortgage.
- Once terminated, they may not be automatically reinstated for subsequent purchasers of the property.

Third Party Notification

- CLTs can require the lender to notify a third party, such as a housing authority or government agency, upon the borrower's default or property foreclosure.
- Lender must ensure that proper notification is provided, as required by the community land trust ground lease.
- Servicer is still responsible for adhering to Fannie Mae's established foreclosure time frames.



Underwriting, Pricing, Committing,

Underwriting

- Loans may be underwritten via Desktop Underwriter® (DU) or manually.
- When using DU, must enter “Affordable LTV” in the Product Description field in the Additional Data section on the online loan application, which will result in DU calculating the LTV, CLTV, and HCLTV ratios based solely on the appraised value for purchase transactions (and not the lesser of the sales price or appraised value).

Pricing and Committing

- Whole loan and MBS pricing is same as regular core business.
- Standard Fannie Mae commitment rules apply, including pair off fees, extensions and other limits and conditions.



Delivery and Servicing

Delivery

- Enter value of the leasehold (inclusive of the improvements) as the appraisal amount in Loan Delivery.
- Calculate LTV and CLTV ratio using the leasehold value and include this ratio as part of the delivery data.
- Loans on CLT properties can be commingled into an MBS with non CLT loans.
- Must enter Special Feature Code 054.

Servicing

- Must be able to identify and track CLT mortgages in systems and have staff trained to originate and service CLT mortgages.
- If servicing is transferred, must be noted on Fannie Mae Form 629 that the CLT property is subject to resale restrictions.



In Summary:

Fannie Mae will purchase mortgages on CLT properties as long as they follow our eligibility guidelines.

- Fannie Mae purchases or securitizes first mortgage loans secured by a CLT property as long as an eligible ground lease.
- All approved lenders can deliver loans on CLT properties but must perform oversight to determine that the CLT and its policies are eligible.
- Appraisal guidelines are different for CLT loans and are documented in the *Selling Guide*.
- LTV ratios are based on the appraised value, not the lesser of sales price or appraised value.
- Loans can be underwritten in DU or manually.
- Standard pricing and committing rules apply but certain loan delivery steps, including a submitting SFC 054, are required.



Grounded Solutions Network

More information and resources can be found on Fannie Mae's website and at the Grounded Solutions Network website (www.groundedolutions.org)

The screenshot shows the homepage of the Grounded Solutions Network website. At the top right, there are links for "Join" and "Contact", along with a phone number "503-493-1000" and an email address "info@groundedsolutions.org". The logo, featuring a stylized house icon with an upward arrow, is on the left. A search bar with the placeholder text "Type keywords..." is positioned to the right of the logo. Below the header is a navigation menu with links: "ABOUT", "PROGRAMS", "RESOURCES", "OPPORTUNITIES", "CONFERENCE", "MEMBERSHIP", and "DONATE". The main content area features a large image of a smiling woman and child. Overlaid on this image is the text "New Organization, More Results" and a sub-headline "Together, we're building strong communities from the ground up". A "LEARN MORE" button is located at the bottom right of this section. Below the main image are two promotional boxes: "Stay In Touch Sign Up For Our Newsletter" on the left and "Introducing Grounded Solutions Network's" on the right, which includes a small portrait of a man. At the very bottom, a Windows taskbar is visible with various application icons.



Thank you for attending

We value your opinion.

Please reach out to me or your Fannie Mae account representative with any feedback or questions.

