



HomeBuyer Manual



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What is a Community Land Trust?

The Community Land Trust (CLT) model of affordable housing was created over 30 years ago by the Institute for Community Economics (ICE) in response to the rising cost of housing, limited space for new construction, growing number of abandoned buildings and an aging housing stock in eastern U.S. cities. In looking for a creative and innovative way to address the housing problem at the time, the CLT model was born. Since that time, unfortunately, the same housing problems that plagued the eastern cities have spread across the country. In response, the CLT movement has spread as well, and there are now over 250 communities across the U.S. that currently operate or are forming CLTs. Besides Kulshan Community Land Trust here in Whatcom County, there are tens of other Community Land Trusts located throughout Washington State and nearly 30 in the Northwest.

The purpose of a Community Land Trust is to provide access to land and housing to people who are otherwise denied access; to increase long-term community control of neighborhood resources; to empower residents through involvement and participation in the organization; and to preserve the affordability of housing permanently. Though the program specifics vary among different CLTs, the basic model is the same. CLTs offer a balanced approach to ownership: the nonprofit trust owns the land and leases it for a nominal fee to individuals who own the buildings on the land. As the home is truly their own, it provides the homeowners with the same permanence and security as a conventional buyer, and they can use the land in the same way as any other homeowner.

CLTs are membership-based nonprofit organizations that offer a balanced approach to governance: members include residents of CLT housing and other individuals, community members and businesses. CLT Boards of Trustees include members from the above groups as well, with a third of the Board required to be representatives from CLT residents. This ensures that CLT homeowners have an active voice in the work of the Trust, and thus in their neighborhoods and the greater community. These distinguishing features are designed to allow the CLT to strike a balance between the interests of the community and the needs of the individual residents.

Community Land Trusts help low- and moderate-income families benefit from the equity built through homeownership, and at the same time preserve the affordability of these homes so that future residents will have the same affordable homeownership opportunities. How do we do this? First, by owning the land and obtaining grant subsidies, CLTs are able to greatly reduce the initial housing cost to the buyer. Second, the ground lease contains a resale provision which ensures that if the house is sold, it goes to another low- or moderate-income household at an affordable price. The same benefits that you receive upon getting into your house, you agree to pass on to the next homeowner. The buyer agrees to limit the amount of profit they make on the house sale in order to insure that the property remains affordable for the next person. The beauty of this is that CLTs do not need additional subsidies each time the house resells; permanent affordability is built into the lease for perpetuity.

Currently there are over 130 CLT homeowners in Whatcom County. There are over 6,000 other CLT homes across the country, located in large cities, small towns and rural areas. While the focus of our work here in Whatcom County has been homeownership, CLTs nationwide also provide housing through affordable rental properties and housing co-ops, while developing community facilities, preserving open space and working with other community groups to promote economic opportunities. KulshanCLT is expanding its work to include affordable and secure access to land for farming as well.

Additionally, because all land trusts are locally operated, they provide greater local control over land and housing ownership and build leadership among community residents. The number of CLTs nationwide has more than doubled in the last ten years, and CLTs are now in 32 states. This model is creatively and cooperatively fulfilling a need for permanently affordable housing in this country.

Key Components of the KulshanCLT Ground Lease or Affordability Covenant

The ground lease (or in the case of a condominium unit, the affordability covenant) is a legally-binding agreement that gives the homeowner the right to use the land. It describes in full the rights and responsibilities of the homeowner and of the community land trust, as well as the restrictions that govern the relationship. The lease and covenant are designed to balance the interests of the lessee as a homeowner with the long-term interests of the land trust and the community.

There are a number of critical defining characteristics of these agreements, including:

99-year term

The 99-year ground lease provides long-term security and access for the homeowner. The lease can be renewed by the homeowner (or by his/her heirs) for an additional 99-year term and so on – forever.

Owner-occupancy

The homeowner (his/her children or other immediate family members) must live in the home for at least nine months out of the year. The home that you buy in partnership with KulshanCLT must be your primary residence.

Lease Fee

The homeowner pays a modest monthly ground lease fee (or in the case of a condominium home, a monthly membership fee) of \$45.00 directly to KulshanCLT. This money helps to defray the costs of managing the lease or covenant and stewarding affordability.

Taxes and assessments

The homeowner is responsible for the payment of all real estate taxes on the house and land. In addition, the homeowner is responsible for all maintenance of the land and the home, just like any other homeowner. Depending on the neighborhood or if the home is a condominium, there may be additional dues that are the responsibility of the homeowner.

Resale of the home

Ultimately it is the homeowner's responsibility to find an income-eligible buyer for their home when they are ready to sell it, but KulshanCLT can help. KulshanCLT maintains a waiting list of interested, eligible and qualified buyers, and can post the available home on their website as well as other locations. As outlined in the ground lease, when a KulshanCLT homeowner wants to sell their home, they can sell it only to another income-qualified household for a maximum resale price as stated in the resale formula. The formula is the homeowner's original contribution or "base price" (which in most instances consists of the cash down payment plus the first mortgage amount minus the Buyer's closing costs) plus 1.5% compounding annually, plus the value of any credit-eligible improvements, minus the value of any deferred maintenance or damage. ***It is expensive to buy and sell Real Estate. If you plan on buying a house, it will financially benefit you to stay in the home for longer than 3-5 years in order to realize a gain.***

It helps to see real numbers to better understand it. Here is an *example* of the resale formula:

- KulshanCLT has **\$55,000** in gap funding available.
- Your household can afford a mortgage of **\$149,000**.
- You have enough cash available to pay your required 1% down payment (**\$2,000**) toward the closing costs of roughly **\$8,000**.
- You'll go shopping for a home that costs **\$198,000**.
- Your "base price" then is **\$143,000**. This is what *you* paid for your home (it does not include the closing costs you paid or KulshanCLT's gap funding).

- The resale formula increases the maximum value of your home by **1.5%** each year.
- Let's say you own your home for seven years but in the seventh year you decide to sell it. Your maximum formula resale price would be **\$158,708** (\$143,000 + 1.5% compounding each year).
- If the interest rate on your mortgage is 4.75%, your equity, at the time of sale would be roughly **\$28,350**. This is made up of both the 1.5% formula increase (\$15,708) and the amount of your loan that you have paid off (\$12,642) over those seven years. Equity amount does not account for your share of closing costs at the time of sale.

Capital improvements and systems replacement

As laid out in more detail in the ground lease, homeowners may receive credit for eligible capital improvements and major house systems replacement.

Homebuyer Eligibility, Qualification & Purchase Information

You are eligible for KulshanCLT's assistance if you meet the following six criteria:

1. **Minimum residency:** You must currently live in or work in and have lived or worked in Whatcom County for at least one year.
2. **Income:** Your household income may not exceed 80% of the median income for Whatcom County for your household size.
3. **Ability to get a mortgage:**
 - **Credit Rating:** You must have a good credit rating showing no significant delinquencies in the past year and no bankruptcy in the past three years. KulshanCLT staff will pull your credit report and talk with you about the report. If there are any problems with your credit, we will work with you to attempt to improve your credit.
 - **Debt:** At the time you apply for a mortgage, your total monthly debt payments should be roughly no more than 5% of your gross monthly income. Debt includes any long-term obligations (a repayment period of more than six months), such as car payments, child support and student loans, plus the minimum monthly payment for all credit card debts. KulshanCLT staff will attempt to determine the impact of your debt but ultimately, you'll work with the loan officer (once you get to that step) to determine whether or not high debt is an obstacle for you purchasing a home.
 - **Employment and on-going income:** You must show proof of steady employment or income for at least one year. Sources of income include all wages, overtime and tips; interest and dividends; social security, annuities, pensions; unemployment, disability and severance compensation; alimony and child support; and most forms of public assistance. Self-employed individuals must demonstrate proof of earnings with tax returns for the past three fiscal years.

You must have enough income to cover the costs of owning a home, including but not limited to mortgage payments, taxes, insurance, the nominal ground lease fee and maintenance and upkeep of the home. Sometimes condo dues or homeowner's association dues are required as well.

4. **Assets:** If you have net assets exceeding **\$20,000** in value, they must be used toward the purchase of your home. Assets include savings, land, mobile homes, recreational vehicles, boats, art collections, or similar items. Not included in the calculation of asset value are household possessions, cars, tools, IRS-designated retirement accounts, or pensions.
5. **First Time HomeBuyer:** For the most part, you must not currently own a home or have owned a home in the past three years. There are exceptions to this rule depending on the sources of funding

that KulshanCLT can access. Be sure to ask KulshanCLT staff about your situation when you submit your application.

6. Capital Requirement: You must be able to contribute, at the time of closing, at least 1% of the purchase price. In addition, you must be able to cover the cost of closing either with cash or by financing it through your mortgage.

Households can qualify for a KulshanCLT home if they:

1. Have submitted a completed application and supporting documentation, paid the application fee and meet the eligibility criteria. Applicants are placed on the waiting list at the point in which they have submitted their application, supporting documentation and fee.
2. Have had a preliminary interview with the HomeOwnership Coordinator that includes a review of the household's income and resale restrictions.
3. Complete a First-Time HomeBuyer course.
4. Have sufficient income and downpayment in order to purchase through our HomeBuyer Driven or Resale Programs.

Once you qualify:

1. **Household size to number of bedrooms (Resales only):** KulshanCLT strives to make the best use of its resources and in doing so will prioritize households that best fit a house in terms of number of bedrooms. Specifically, a household may purchase a home with one more bedroom than the number of people in the household. For example, a two-person household may purchase a one, two or three bedroom home. However, if no one on KulshanCLT's waiting list or active applicant pool is interested in buying a particular house, this requirement may be waived.
2. **Priority given based on Application Date:** When a KulshanCLT house become available for sale or when new funds become available for our HomeBuyer Driven Program, people on the waiting list will be notified and will be given an opportunity to respond before general marketing begins.

Should more than one qualified person on the waiting list respond with an interest within the defined time period provided in the notice, KulshanCLT will proceed with the person who was placed on the waiting list first.

3. **Staying on the Waiting List:** A household may stay on the waiting list for as long as they continue to QUALIFY and provide KulshanCLT with application and financial updates as requested. Failure to provide updates within the timeframe requested will result in removal from the waiting list. Should an applicant later provide such updates they will be placed at the bottom of the waiting list at the time they provide their update.

If KulshanCLT presents the household with an option to purchase a home, that household may pass without losing their position on the waiting list.

If a household is presented an opportunity to purchase a KulshanCLT home while on the waiting list but is not completely qualified or does not meet the mortgage lenders criteria, they must pass on that opportunity. This will in no way effect their position on the waiting list.

4. **Shopping for a home (HomeBuyer Driven Program only):** Once funds have been allocated, we will issue you a “Letter of Intent” that confirms KulshanCLT’s gap financing for you and includes our Site Selection Criteria. Please provide your loan officer a copy of this letter. Your loan officer, KulshanCLT and you can determine what affordable home price you will be shopping for with your Real Estate Broker.

Once you have identified a house to purchase, the following steps must be completed:

1. Meet with the HomeOwnership Coordinator to update your financial information and review the purchase price to make sure you can afford that particular house.
2. Meet with a loan officer to confirm the amount of a loan that you can qualify for.
3. Sign a purchase and sale agreement and pay the earnest deposit.
4. If the property is an existing home, order a property inspection by a qualified inspector. This step is not necessary for new construction.
5. Complete loan application.
6. Complete homebuyer education if you have not already done so.
7. Close on the loan and move in!

Property and Site Criteria for the HomeBuyer Driven Program

KulshanCLT reserves the right to approve or not approve any home for which KulshanCLT financial assistance is requested. Exceptions to these policies may be considered but will need to be approved by the Board of Trustees. Many of these requirements are dictated by KulshanCLT’s funding sources.

Location:

1. Homes must be located within Whatcom County.
2. KulshanCLT encourages that homes be located in urban growth areas (UGAs) as delineated in the comprehensive plans of Whatcom County and its towns and cities.
3. Homes may not be located in certain subdivisions where future cost assessments are unpredictable, such as in Sudden Valley, Paradise Lakes subdivision and Peaceful Valley subdivision.
4. Homes may not be located in 100-year flood zones or environmental hazard areas such as steep or unstable slope areas.
5. Homes should be located in reasonable proximity to the homebuyer household's schools, jobs and services.

House:

6. Homes must be single-family detached homes. Cooperative units are not currently eligible. Only select condominium units are eligible. Please contact KulshanCLT staff to inquire about which condos may be eligible.
7. Manufactured homes are not eligible.
8. Homes in the city of Bellingham must be either owner-occupied or vacant. Homes cannot be rental property with tenants.
9. KulshanCLT will assist to interpret the results of a professional home inspection and will identify items that need to be repaired to meet Housing Quality Standards.
10. Homes must be ready for occupancy with all systems in good condition and with no needs for substantial repair or rehabilitation likely during the first five years of ownership, based on a thorough inspection by a qualified, independent inspector from a list of KulshanCLT-approved home inspection services.
11. Maximum contract price may not exceed (these figures will be updated annually):

2012 Maximum Contract Price				
Number of bedrooms	1	2	3	4+
Maximum price	\$185,000	\$210,000	\$225,000	\$245,000

12. The home must be insurable with both a regular homeowner's policy and an earthquake policy.

Recommendations for the buyer and real estate agent:

1. Buyer's realtor is required to receive a brief orientation and Agent Packet on KulshanCLT's home purchase guidelines and recommendations, prior to beginning the house search.
2. Buyer is advised to get information from City Hall on neighborhood plan, building permits, Associations, etc.
3. Buyer is advised to review neighborhood CC and Rs (aka "Covenant, Codes and Restrictions"), if applicable, available with Form 17.

FEE SCHEDULE FOR PROSPECTIVE HOMEOWNERS

KulshanCLT Membership: \$10 per household

- Due at time of application, if not before.
- Good for one year
- Non-refundable.
- *Supports KulshanCLT's operations.*

Application fee: \$45 per household

- Due with application to KulshanCLT.
- Pays for a tri-merge credit report.
- Non-refundable.
- *Supports staff time to process your application and pays for a credit report.*

Commitment fee: \$100 per household

- The timing of this fee varies depending on the path to homeownership.
- *Supports project costs, and establishes committed relationship.*

Earnest Money Payment: \$1000 (roughly - depends on path)

- Total due when making an offer to buy a home.
- This is part of the purchase and sale contract, which is negotiable.
- *This payment will be credited toward the required 1% downpayment.*

Home Inspection: \$400 - \$500

- KulshanCLT requires a full home inspection by an ASHI certified inspector.
- KulshanCLT will provide you with a list of certified home inspectors.
- This amount is *in addition* to your required 1% down payment

Mortgage Application Fees: \$450 - \$600

- To be determined by the mortgage bank.
- *This payment will be credited toward the required 1% downpayment.*

Closing costs: A range between \$5,000 and \$9,000 depending on a variety of factors

- Closing cost are made up a combination of two categories of costs
 - The first category is made prepaid housing costs - insurance premiums, principle and interest for the first month and property taxes
 - The second category is made up of fees - escrow fees, title insurance, recording costs appraisal fee, any points that you agreed to for a lower interest rate and others.

Ground Lease Fee or Affordability Covenant: \$45/month once you move into your home

- Due on a monthly basis (includes KulshanCLT membership)
- Paid to KulshanCLT before the fifth of each month.
- *Helps to defray the cost of administering the program.*

Also, please be aware of the other costs associated with moving in to your own home – the cost of actually moving, changing the locks, new window coverings and other items can really add up. Start saving now and save as much as you can in anticipation of owning your own home!

We look forward to working with you!