

Home Trust of Skagit
Affordable Homeownership in Skagit County
Home Buyer Manual



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, a 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 250 communities across the U.S. that currently operate or are forming CLTs. Besides Home Trust of Skagit here in Skagit County, there are several other Community Land Trusts located throughout Washington State.

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 supportive individuals, families and businesses. The Board of Directors includes 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 cities. 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 potential buyer. Second, the land lease contains a resale provision which ensures that if the house is sold, it goes to another low or moderate income person. This is one of the reasons why the model is called a *community* land trust. 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.

There are over 6,000 other homes in CLTs across the country, located in large cities, small towns and rural areas. While the focus of our work here in Skagit County has been single-family homes and condominiums, CLTs nationwide also provide housing through affordable rental properties and housing coops, while developing community facilities,

preserving open space and working with other community groups to promote economic opportunities.

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

Key Components of the Home Trust of Skagit Ground Lease or Affordability Covenant for Homeowners

The ground lease (or in the case of a condominium unit, the affordability covenant) is a legally-binding agreement that gives the lessee/homeowner the right to use the land. It describes in full the rights and responsibilities of the Lessee/homeowner and the community land trust, as well as the restrictions that govern the relationship. The lease and covenant is 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 agreements that are defined by the ground lease, including:

99-year term

The 99-year 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.

Owner-occupancy

The homeowner (or his/her children, other immediate family members, or dependents) must live in the home for at least nine months out of the year.

Lease Fee

The homeowner pays a modest monthly land lease fee of \$50.00 plus any homeowner association or common ground maintenance fees directly to the Land Trust in exchange for access to and use of the leased land premises.

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.

Resale of the home

When a Land Trust homeowner wants to sell his or her home, there are several options. The home can be sold to the Land Trust (which has first option to purchase) and in turn be sold to a person on the waiting list, it can be sold to an income-qualified buyer, or it can be given to the homeowner's children or heirs. No matter which action is taken, the Land Trust staff will help you through the process of selling your home.

Since Land Trust homes are not bought and sold on the open market, a formula is used to determine the sale price to the next buyer. This resale formula guarantees the homeowner all of their equity (the portion of the mortgage that has been paid off) their down payment amount, plus, up to 1.5% of their down payment and mortgage amount, compounded annually, plus, the value of any eligible improvements minus the value of any deferred maintenance.

This resale formula in action looks like this -

- You and HTS buy a house and land or a condo unit for **\$195,000** with a mortgage of **\$141,500** a downpayment of 1% or **\$1,950** and assistance from HTS of approximately **\$62,000**.
- Your “purchase price” is what you paid for your home or **\$143,450**. (Your mortgage plus your downpayment). Through the resale formula the value of your home increases by 1.5% each year.
- In ten years you would sell your home for **\$166,480** ($\$143,450 + 1.5\%$ of $\$143,450$ compounded annually).
- Depending on your interest rate you realize roughly **\$55,000** in equity due to the 1.5% increase and the amount of your mortgage that you have paid off over those ten years.

Property and Site Criteria for the HomeBuyer Driven Program

Home Trust of Skagit reserves the right to approve or not approve any home for which HTS financial assistance will be required. 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 Home Trust of Skagit’s funding sources.

Location:

1. Homes must be located within Skagit County
2. HTS encourages that homes be located in urban growth areas (UGA’s) as delineated in the comprehensive plans of Skagit County and its towns and cities.
3. Homes may not be located in certain subdivisions where future cost assessments are unpredictable.
4. Homes may not be located in the 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.

Homes:

1. Homes must be single-family detached homes. Cooperative units are not currently eligible. Only select condominium units are eligible. Please contact HTS staff to inquire about which projects are eligible.
2. Homes must have at least two bedrooms.
3. Manufactured homes are not eligible.
4. Homes must be either owner-occupied or vacant. Homes cannot be rental property occupied by tenants.
5. HTS 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.
6. 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 HTS-approved home inspection services.

7. The value of the *improvements* (i.e. the home) may not exceed \$285,000. What this means is that the purchase price can exceed the \$285,000 but the “value” of the land, as determined by the appraisal, cannot exceed the difference between \$285,000 and the purchase price. Please check on the changing acquisition limits with the Washington State Housing Finance Commission.
8. 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 advised to receive a brief orientation and Agent Packet on Home Trust of Skagit’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, Associations, etc.
3. Buyer is advised to review neighborhood CC and Rs (aka “Covenants, Codes and Restrictions”), if applicable.

HTS Homeowner Eligibility Guidelines

Definitions:

Applicant(s) – Household applying for HTS housing. This includes all adults age 18 or older living in the home. Households are not eligible applicants if any member of the household currently owns a home.

Income – Is calculated using all adults age 18 or older in the household (possible exemptions for students) and includes 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.

Asset – Includes: savings, investments, land, recreation vehicles, or similar items. Note: household possessions, cars, and Individual Retirement Accounts (IRAs) or Defined Retirement Accounts are **not** included in asset calculation.

Debt – Includes: any long-term obligations (with a repayment period of more than 6 months) such as automobile payments, child support, student loans and the minimum monthly payment for all credit cards accounts.

Eligibility Requirements

Minimum Residency: The applicants must meet the *residency requirement* of 1 year within the county.

Income: Applicants must have enough income to pay the monthly mortgage, taxes, and insurance. However you household income may not exceed 80% of the area median income for Skagit County as published by the US Department of Housing and Urban Development. Proof of income is required as part of the application to HTS.

Credit Rating: Applicants must have a good credit rating showing no significant delinquencies in the past year and no bankruptcy in the past three years.

Debt: At the time of the mortgage application, the Applicant's total Debt (including the costs of the house) should not exceed 40% of their income.

Employment or other income: Applicants must provide proof of steady employment or income for at least one year. Self-employed individuals must demonstrate proof of earnings with tax returns for the past two years. Self-employed individuals income is evaluated after business expenses are removed from the gross income.

Assets: If the applicants have total assets valued at more the \$7,500 (\$10,000 for seniors age 65 or older), they may be required to use them towards purchasing the home.

Closing Costs: Applicants must have access to sufficient funds to cover the initial closing costs of buying the home. The following costs will be paid out of HTS subsidy: half of the

escrow fees, title insurance, first year's property taxes and homeowner's insurance, appraisal, and recording fees.

Membership: Applicants must be members of HTS and maintain that membership to remain on the waiting list.

Education: Heads of Households must attend a HTS Homeownership Orientation and complete a Homebuyer Class approved by HTS.

Background Check: All applicants must give authorization for a complete background review including a criminal background check

NOTE: Even if you do not think you qualify, you should talk to a HTS staff person to determine if you may be eligible now or in the future. Keep in mind, the road to any type of home ownership is challenging. However, under the CLT homeownership model you have a partner (HTS) in this process and we are here to help you become a successful homeowner. We understand that every applicant is different and will move through the process at their pace. Some homebuyers come to us ready to buy so it's a very short process. Others may need more preparation to get ready for homeownership and it could take them a year, or two, or more to get ready. You just have to get started and realize that the work you are doing now will pay off in the long run.

FEE SCHEDULE FOR PROSPECTIVE HOMEOWNERS

Home Trust of Skagit Annual Membership: \$50 per household per year.

- Dues must be paid at the time of being placed on the waiting list if not before.
- Non-refundable.
- *Supports HTS operations.*

Application fee: \$50 per household.

- Due with application to Home Trust of Skagit.
- Pays for a tri-merge credit report
- Non-refundable.
- *Supports staff time to process your application and pays for a credit report.*
- *This payment will be credited toward the required 1% down payment.*

Commitment fee: \$100 per household.

- Due when you acknowledge receipt of the *Letter of Intent* from Home Trust of Skagit.
- *Supports project costs, and establishes committed relationship. This payment will be credited toward the required 1% down payment.*

Earnest Money Payment: \$1000 (roughly – ask the advice of your real estate agent)

- Total due when making an offer to buy a home.
- Refundable if you do not qualify for a mortgage or when you exercise an option to withdraw from purchase and sale agreement provided you act in a timely manner.
- This is part of the purchase and sale contract, which is negotiable.
- *This payment will be credited toward the required 1% down payment.*

Home Inspection: \$300 - \$450

- HTS requires a full home inspection by an ASHI certified inspector.
- HTS will provide you with a list of certified home inspectors.
- You, with advice from HTS, will negotiate the results of the home inspection with the seller prior to making formal loan application with the bank.
- This amount is ***in addition*** to your required 1% down payment

Mortgage Application Fees: \$250 - \$500

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

Closing costs: These costs will be paid out of Home Trust of Skagit's subsidy

- These costs include: half of escrow fees, title insurance, first year's property taxes and homeowner's insurance, appraisal, and recording fees.

Transaction Fee: 1% of the purchase price

- 1% of the purchase price paid by each the buyer and seller

Ground Lease Fee: \$50/month and any Homeowner dues and Grounds Maintenance fees, once you move into your home

- Due on a monthly basis
- Paid to Home Trust of Skagit before the fifth of each month.
- *Helps to defray the cost of administering the program.*

Also, be aware of the other costs associated with moving in to your own home.