

Homebuyer's Manual

Information and Orientation Packet

Diamond State CLT

A Community Land Trust for Delaware

Diamond State CLT
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How will DSCLT help me buy a home?

The community land trust concept works by redefining a house and the land it sits on as separate commodities. In a community land trust (CLT), a nonprofit community-based organization owns a parcel of land and then agrees to never sell it. Like conventional market housing, the homeowner has every legal right to use, occupy and enjoy the land. A land trust homeowner may even pass the home on to his or her heirs. But the community group, the CLT, maintains ownership of the land. The goal of the CLT is to create a stock of affordable homes that will continue to be available and affordable to future generations.

With DSCLT:

- ◆ You purchase and own the house
- ◆ DSCLT owns the land, and we lease the land to you through a renewable, inheritable, 99-year ground lease.

Because DSCLT owns the land, we are able to reduce your initial purchase price. You pay much less to own a land trust home than you would if you purchased a market rate home.

For many, DSCLT is the first step to homeownership. Later they may move on to market rate homes. For others, land trust homeownership—and the community support that it brings—is the only way they want to own a home.

The ground lease contains a resale provision that ensures that if you sell your house, you must sell to another homebuyer who is qualified under DSCLT's income guidelines. This is one of the reasons it is called a community land trust: you agree to pass the benefit of affordability on to the next homeowner. This is how the property remains affordable to future generations of homebuyers in the community.

The opportunities available through DSCLT change over time, so be sure to check out the current flyers in your orientation folder or on our website: www.diamondstateclt.org If you are interested, we encourage you to begin the application process to secure a spot on the DSCLT Homebuyers waiting list as soon as you are eligible. Participants on the waiting list have access to new opportunities as they become available before the general public.

Renting vs. Owning – Is Homeownership Right for You?

Before you buy a house, you should think carefully about the benefits and downsides of both renting and homeownership.

When you rent...

- ◆ You are not responsible for repairs when they are needed. Your landlord is responsible to make (and pay for!) repairs. Some repairs and regular maintenance—such as a new roof—are very expensive.
- ◆ Your landlord tracks all the bills—sewer bill, garbage bill, taxes, insurance—for the property.
- ◆ If there are code violations in the structure, it is the landlord's headache, not yours.

On the other hand, there are downsides to renting:

- ◆ Rents can rise, sometimes forcing families out of neighborhoods that were previously affordable
- ◆ Renters are vulnerable to eviction if their landlord chooses to sell or do something else with the property
- ◆ Renters are not able to invest and build assets in their home. Unlike homeowners paying off their mortgage, the money renters pay each month will never be seen again.

And when you own a home, you:

- ◆ Accumulate wealth by building equity as you pay down your mortgage.
- ◆ Take a tax deduction for the property taxes and mortgage interest that you pay, if you itemize your income taxes.
- ◆ Have a fixed monthly payment that will have the same principal and interest payment for the next 30 years (property taxes may go up in that time).
- ◆ Don't have to ask anyone if you want to paint, plant a garden, build a fence, or get a dog.
- ◆ Have stability for yourself and your family. You don't have to worry about being evicted or displaced from your home.
- ◆ Have an asset that you can pass on to your heirs.

Benefits of CLT Homeownership:

- ◆ Makes it possible for you to buy a house you might otherwise not be able to afford.
- ◆ You can get off the rental treadmill—increasing your stability and building wealth.
- ◆ You do not have to pay private mortgage insurance, which saves on monthly expenses.
- ◆ Staff can help you navigate through the complex process of buying a house.
- ◆ You can sell your house quickly if you need to, because DSCLT will purchase it back.
- ◆ You build up equity in your home and receive tax benefits, like any other homeowner.
- ◆ You become part of the DSCLT community. DSCLT is a membership organization and homeowners play a large part in our governance and have an active network.

Key Features of the DSCLT Ground Lease

Diamond State CLT homeowners lease the land under their home from the land trust through a 99-year ground lease. The ground lease is the legal agreement that protects your interests as a homeowner in privacy, security, and legacy and the community's interests in its investment in creating affordable homes.

The DSCLT ground lease is a strong legal document detailing the agreements all DSCLT homeowners make when they purchase a home through DSCLT. Because it is necessarily long and detailed, we provide just the key concepts here. DSCLT homebuyers receive a "plain language" summary of the ground lease as well as a full copy of the ground lease.

Membership in DSCLT

- ◆ Membership starts at just \$5/year.
- ◆ Members gather each Fall for the Annual Membership Meeting to vote for the Board of Directors and any changes to the bylaws
- ◆ Members volunteer their time to serve on committees, the Board of Directors, and at special events in the community
- ◆ Members receive a quarterly newsletter with updates about homes for sale, future projects, and other DSCLT activities

If you believe in DSCLT's mission to strengthen communities, create and preserve affordable homes, and promote sustainable land use, become a member today! Just fill out a DSCLT membership enrollment card and send it in to DSCLT with your membership fee.

Rights and Responsibilities

DSCLT homeowners are giving full rights and responsibilities for their home and the land underneath it. The lease provides you with a secure right to occupy the land no matter who owns it, as long as you meet the terms of the lease.

99-year Renewable Term

The 99-year renewable lease provides long-term security for the homeowner.

Owner Occupancy

The DSCLT homeowner or a direct family member must live in the home. You cannot become an absentee owner.

Remodeling

DSCLT homeowners have the right to undertake most (but not all) home improvements without DSCLT's consent. Any renovations that require a building permit or certificate of occupancy require DSCLT's approval in advance of any work being performed.

Lease Fee

Homeowners pay a modest monthly fee of \$40 to DSCLT in exchange for use of the leased land. In exchange, homeowners have full, exclusive and secure use of and access to the land.

Inheritance

DSCLT homeowners can leave a legacy to their spouse and descendants who are eligible to inherit their home.

Taxes and Assessments

As the owner of your house and leaseholder of the land, DSCLT homeowners are responsible for the payment of all taxes on both the house and the land.

Maintenance

The homeowner is responsible for all maintenance of the home and the land, just like any other homeowner.

Resale

A central part of CLT homeownership is preserving the affordability and community investment in homeownership. DSCLT uses an appraisal-based resale formula that allows a DSCLT homeowner to resell their home for their initial purchase price plus a share of the market appreciation on the property.

A DSCLT homeowner cannot resell the house for full market value. When the homeowner decides to sell, DSCLT aids the homeowner by selling the home to another income-qualified household. The re-sale price of the home is determined by the resale formula. The formula gives homeowners a fair return on their investment while providing long-term affordability for future buyers.

By fixing the home seller's percentage share of appreciation, the resale formula achieves DSCLT's two primary goals, which are:

- 1) provide homeowners a fair return on investment, helping them to build wealth; and
- 2) keep homes affordable for future generations of working families.

DSCLT Membership

The Diamond State CLT is a membership organization. For as long as you're a DSCLT homeowner, you are a voting member of the DSCLT. You have the right to participate in governing the organization that owns the land under your home.

DSCLT is a Membership-based, Democratic Organization.

This means that our members define the role we play and how successful DSCLT is at achieving our mission. Members include neighborhood representatives, owners of DSCLT homes, at-large community representatives, and individuals representing community-based organizations. Members help shape the organization by participating in committees, attending annual membership meetings, and serving on the Board of Directors. Our Board of Directors is made up of community members committed to our mission. One-third of the seats on our Board are reserved for lessee (homeowner) members.

The DSCLT Resale Formula - Example

STEP 1

\$100,000	Initial Purchase Price Paid by First Homeowner
÷ \$150,000	Appraisal of Home and Land at Initial Purchase
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66%	Portion of Total Value Owned by Homeowner

STEP 2

\$200,000	Appraisal at Resale
- \$150,000	Appraisal of Home and Land at Initial Purchase
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\$50,000	Appreciation

STEP 3

\$50,000	Appreciation
x 66%	Portion of Total Value Owned by Homeowner
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\$33,000	Increase in Value Attributed to Portion Owned by Homeowner

STEP 4

\$33,000	Increase in Value Attributed to Portion Owned by Homeowner
x 35%	Shared Appreciation Factor (Resale Formula Percentage)
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\$11,550	Homeowner's Share of Appreciation

STEP 5

\$100,000	Initial Purchase Price
+ \$11,550	Homeowner's Share of Appreciation
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\$111,550	Base Resale Price to Next Homeowner

The shared appreciation factor, set in the ground lease, increases with the length of ownership at the following intervals:

0-5 Years	25%
6-10 Years	35%
11-15 Years	45%
15 + Years	55%

In the example above, the first re-sale occurred between 6 and 10 years of ownership. The Shared Appreciation Factor varies depending upon the length of ownership.

Understanding the Financial Details – An Example

In the example below, a house is initially for sale for \$150,000. We compare the purchase of that house on the open market, at market price, and using financing available to first-time homebuyers, with the purchase of an identical house with DSCLT. In this example - ten years later, the property is worth (appraises for) \$250,000.

	<u>Through DSCLT</u>	<u>Open Market</u>
Property Appraises for	\$150,000	\$150,000
CLT Subsidy Amount	\$50,000	\$0
Buyer's Purchase Price	\$100,000	\$150,000
Cash down payment	\$1,000 (1% of sales price)	\$4,500 (3% of sales price)
Loan needed	\$99,000	\$145,500
Closing costs (estimated)	\$3,960 (4% of loan)	\$7,275 (4%)
Monthly Payment (principal, interest, taxes, insurance)	\$726 (does not include private mortgage insurance)	\$1,080 (includes private mortgage insurance)
Ground Lease Fee	\$40	\$0
Total monthly cost	\$766	\$1,080
Estimated income needed to afford	\$30,640	\$43,200
	<u>Through DSCLT</u>	<u>Open Market</u>
Increase in property value	\$100,000	\$100,000
Seller's share of increase in value (calculated using resale formula)	\$23,100	\$100,000
Benefits to seller:		
They paid:	\$100,000	\$150,000
They received at sale:	\$123,100 (\$100,000 + \$23,100)	\$235,000 (\$250,000 less \$15,000 realtor)
They borrowed	\$99,000	\$145,500
Mortgage balance still owed at sale	\$83,757	\$123,097
Their equity is	\$15,243	\$22,403
Their profit (equity + appreciation + initial downpayment returned)	\$39,843	\$126,903
House sells to next household for	\$123,100	\$250,000
Estimated Annual Income needed for next buyer is	\$38,000	\$68,480

The buyer of the market-rate house had a significantly higher return on investment. The DSCLT homeowner nonetheless enjoyed a twenty-fold return on investment (remember, they put down \$1,000). The land trust house was more affordable in both transactions than the market-rate house—markedly more affordable to the second buyer in the resale transaction. Estimates for both the DSCLT and the open market examples are based on a conventional 6.5% 30-year loan with \$35 a month towards insurance, \$125 a month towards taxes on the open market and \$100 a month towards taxes for DSCLT.

Am I ready to buy a home with DSCLT?

Our homeownership program is open to families, single people, seniors—any homebuyer who is income-qualified (see below) and wants to live in Delaware. When thinking about your eligibility, you should consider your income and employment, as well as your credit history and savings. These are the factors a lender will consider when you apply for a mortgage. We recognize that homebuyers may be at different stages of the homebuyer process. We can help connect you to other community resources to assist you.

I want to buy a house.

If you want to buy a house with DSCLT, you need to review your current income, monthly debt payments, credit report and savings. A homeownership counselor can help you identify how much you can afford and your eligibility. During the final application process you will meet one on one with a DSCLT staff member to review your specific situation. Although everyone's financial situations are unique, we do not allow our homebuyers to pay more than 30% of their gross monthly income towards housing costs (including the monthly ground lease fee).

What does my income need to be in order to qualify for DSCLT homeownership?

DSCLT serves households with steady incomes at 80% or less of the area median income for their household size. Your "income" includes all of your gross (before taxes) revenues, including wages, child support or alimony, SSI, SSDI, etc. Some opportunities through DSCLT may have lower income restrictions, typically 60% of the area median.

The Diamond State CLT resale formula was developed to balance the interests of the homeowner in building wealth with the interests of the community in preserving affordable homeownership opportunities for future generations. Three main factors are included in the resale formula:

1. The amount the homeowner paid for the home as a percentage of the total market value of the home and land (Steps 1 and 3 in the example on page 6 of this manual);
2. The increase in the market value of the property (the home and land combined, Step 2 in the example); and
3. The shared appreciation factor, which is set in the ground lease (Step 4 in the example).

What if my debts are high?

Almost everyone has some debt. Paying consistently on debt is what builds your credit history. However, most lenders want consumer debt load (the minimum monthly payments on credit cards, your car loan payment, student loan payment, any child support or alimony that you pay) to be no more than 10% of your gross monthly income. The more debt you carry, the smaller the home mortgage loan you will be able to qualify for. Your homeownership counselor will help provide you with tools and create a plan to reduce your debt and stick to a sustainable budget.

What if I have credit problems?

As with purchasing a market rate house, a participating lender will perform a thorough credit history check before approving your mortgage. "Credit repair" is really a matter of debt repayment and time—it takes time (sometimes several months) for credit reporting agencies to clear debts on your credit report,

even if you've paid the debts off. If you have credit problems, it doesn't mean homeownership is out of reach—it just means you have some financial work to do and likely won't be able to purchase a home right away.

How much do I need to have in savings?

DSCLT requires that the homebuyer contribute a minimum of: the lesser of \$500 or 1% of the sales price from the homebuyer's own funds. We suggest buyers have at least \$2,000 to \$4,000 in savings for home purchase. Closing costs (including title insurance and loan fees) can range from 3 to 4% of the loan depending on the loan product you choose. Your homeownership counselor will help you identify whether you might be eligible for down payment assistance programs. Gifts from family or friends may be eligible to help homebuyers with closing costs and down payments.

After you've closed on the purchase of your house, we recommend that you still have at least \$1,000 in your bank account. Remember: once you're the homeowner, it's your responsibility to make repairs. Don't be caught off-guard by an unexpected repair!

Plan to put away at least \$25- \$50 a month in a savings account dedicated for future repairs. Even if your house is new today, it will need repairs or updates over time.

Next Steps

You have already completed the first step: attending this orientation! Your next step will be to fill out the preliminary application handed out today and turn it in to DSCLT. Page 11 outlines the process to become a homeowner with DSCLT.

Ways to Buy DSCLT Homes

New Homes

DSCLT works with non-profit and for-profit housing developers to provide new construction homes and fully rehabbed homes for sale throughout Delaware. The homes range in size, location and sales price. For more details on DSCLT's current new homes for sale, see the Current Flyers or check out our website at www.diamondstateclt.org. If you are interested in a home that does not yet have a determined price, you may place your name on the waiting list and make a deposit once you have completed a final application.

Resale Homes

When a DSCLT homeowner decides to sell their home, DSCLT helps the homeowner re-sell the home to other income-qualified buyers. DSCLT will advertise resale homes as they become available. Interested homebuyers on the general waiting list will be informed as these homes come up for sale. See the flyers included in your Homeownership Orientation Packet for details about currently available opportunities.

The Path to Homeownership with Diamond State CLT

Phase 1: The Application Process

Determine your eligibility and willingness for commitment: You are eligible if you meet the criteria listed on page 13. DSCLT advises you to read through this entire information packet and application to determine your willingness to complete all steps, including completing homeownership counseling.

Come to a DSCLT Homeownership Orientation: Attend one DSCLT Homeownership Orientation Session, led monthly by land trust staff. Attending one of these free orientation sessions is your opportunity to learn about how to buy a home through DSCLT, and about the specific homes we have for sale. Fill out and submit the DSCLT buyer information sheet.

Homeownership Education: Potential DSCLT homebuyers must complete homeownership counseling prior to purchase. HUD-certified homeownership counseling agencies that we work with most are listed below.

NCALL Research

363 Saulsbury Road
Dover, DE 19904
(302) 678-9400
(302) 678-9058 FAX
e-mail: info@ncall.org

Interfaith Community Housing of Delaware

For New Castle County:

2 South Augustine Street, Suite B
Wilmington, DE 19804-2504
Contact: Erikka Concepcion
e-mail: econcepcion@interfaithhousingde.com

For Kent & Sussex Counties:

Colony West
20 Patrick Henry Lane
Milford, DE 19963
Contact: Carlton Bowers
e-mail: cbowers@interfaithhousingde.com

First State Community Action Agency

For Sussex County:

Stanford L. Bratton Bldg.
308 N. Railroad Ave
Georgetown, DE 19947
302-856-7761
800-372-2240
302-856-2599 (fax)

For Kent County:

Blue Hen Corporate Center
655 S. Bay Road, Suite 4J
Dover, DE 19901
302-674-1355
302-674-5229 (fax)

For New Castle County:

Rose Hill Community Center
19 Lambson Lane
New Castle, DE 19720
302-498-0454
302-575-1409 (fax)

Submit application and review with DSCLT staff: Complete and submit an application (and all necessary documentation) with an application fee.

Phase II: Mortgages & DSCLT Application

Meet with a lender: Your next step will be to meet with a lender and get pre-approved for a loan. Submit a copy of the pre-approval letter to DSCLT. A list of participating lenders is included in your orientation packet.

DSCLT Approval: Application is reviewed by DSCLT staff and Selection Committee.

Phase III: Purchase

The next steps toward purchasing your home will be unique depending on which of the paths you choose. DSCLT has site criteria, distinctive lease agreements, and other documents that will be involved in your transaction.

Ground Lease Review: It's very important that you fully understand the ground lease agreement, particularly the resale provisions. DSCLT staff will meet with you individually to provide more in-depth education about the DSCLT program. Buyers are required to review the Ground Lease with an experienced attorney prior to closing.

Sign a Purchase and Sale Agreement: DSCLT will provide the purchase and sale agreement. Then you'll work with DSCLT and the developer through your purchase process. For some new construction homes, homebuyers who sign an Agreement early enough may have some choices on finishes in the home.

Whether you're buying a newly constructed home or an older one, after you've signed the Purchase and Sale Agreement, you will need to have a home inspection by a licensed inspector and negotiate any necessary repairs with the seller. Even if you're purchasing a new house, there may have been errors in the construction process and the seller will have to correct any code issues.

Proceed to Closing: Congratulations!

Eligibility Criteria

To be eligible to purchase a home through DSCLT:

You must be 18 years of age or older, and either a citizen or lawful permanent or nonpermanent resident of the United States.

Your total household income must be at or below 80% of the Area Median Income for the county in which you wish to purchase a home (see table at end of this manual).

You must be able to qualify for a mortgage through a DSCLT participating lender.

Your minimum income must be sufficient, based on the participating lender's debt to income ratios for CLT loan products, to support the housing costs for the home you wish to purchase.

Your overall financial situation, including your assets, must clearly demonstrate a limited ability to compete successfully in the conventional housing market in Delaware—that is, to purchase a home on the open market without financial assistance.

Secondary Factors

If multiple buyers are interested in one property, a points system will be used to determine priority based on factors including residency, previous attempts to purchase a home through DSCLT, appropriateness of the size of the home to household size, and lowest income.

Support for Homeowners

Diamond State CLT makes a long-term commitment to our homeowners. DSCLT's Homeowner Support Committee—which consists of Land Trust homeowners, staff, board members and general community members— meets quarterly to address DSCLT's responsibilities and relationship to its homeowners.

Homeowners are automatically members of the land trust, which means they are involved in the decision-making process for the organization, including electing the Board of Directors and voting on Land Trust policies at the Annual Meeting.

DSCLT sees its relationship with homeowners as a partnership. We are here to be a resource on a variety of issues, including foreclosure prevention and refinancing options. The organization also hosts occasional social events for interested homeowners, and serves as a resource, providing information about home maintenance and referrals to other agencies and community resources as needed.

Tables: 80% of county Area Median Income (AMI)

Kent County - 2009:

1 person	2 persons	3 persons	4 persons	5 persons	6 persons	7 persons	8 persons
\$33,300	\$38,100	\$42,850	\$47,600	\$51,400	\$55,200	\$59,000	\$62,850

New Castle County - 2009:

1 person	2 persons	3 persons	4 persons	5 persons	6 persons	7 persons	8 persons
\$43,600	\$49,800	\$56,050	\$62,250	\$67,250	\$72,200	\$77,200	\$82,150

Sussex County - 2009:

1 person	2 persons	3 persons	4 persons	5 persons	6 persons	7 persons	8 persons
\$32,850	\$37,500	\$42,200	\$46,900	\$50,650	\$54,400	\$58,150	\$61,900