

Homebuyer's Manual

Information and Orientation Packet



Diamond State CLT

A Community Land Trust for Delaware

Diamond State Community Land Trust
(Diamond State)
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How will Diamond State help me buy a home?

Diamond State uses the Community Land Trust (CLT) model to develop and sell permanently affordable homes. The CLT model of homeownership separates ownership of the land from ownership of the house, or ‘improvements’ on the land. Using a limited-equity Ground Lease, homes are kept perpetually affordable for low to moderate income households. 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 Diamond State:

- ◆ You purchase and own the house
- ◆ Diamond State owns the land, and we lease the land to you through a renewable, inheritable, 99-year ground lease.
- ◆ The ground lease gives you secure legal rights to occupy and enjoy the land, but impose some restrictions on the resale of the property.

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 Diamond State’s income and eligibility 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.

Because Diamond State 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, the community land trust model 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 opportunities available through Diamond State change over time, so be sure to regularly check out the “homes for sale page” on our website: www.diamondstateclt.org. If you are interested, we encourage you to begin the application process to secure a spot on the Diamond State Homebuyers ready buyer list as soon as you are eligible. Participants on our ready buyer 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 the home needs repairs, 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 equity 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 and insurance costs may go up in that time).
- ◆ Don't have to ask anyone if you want to paint, plant a garden, or get a pet.
- ◆ 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 Diamond State Homeownership:

- ◆ Diamond State 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 build equity as you pay down your mortgage, and earn a limited share of the home's appreciation.
- ◆ Diamond State staff will help you navigate through the complex process of buying a house.
- ◆ Diamond State homeowners typically do not pay private mortgage insurance (PMI).
- ◆ You receive tax benefits, like any other homeowner.
- ◆ You become part of the Diamond State community. Diamond State is a membership organization and homeowners play a large role in our governance.

Key Features of the Diamond State Ground Lease

Diamond State homeowners lease the land under their home from the land trust through a 99-year ground lease. The ground lease protects the homeowner's privacy, security, and legacy, but also protects the community's investment in the property by ensuring that it will remain forever affordable.

The ground lease is a proven legal document, used for over 20 years by CLTs nationally, which details the agreements all homeowners make when they purchase a home through Diamond State. It outlines your rights and responsibilities as well as Diamond State's. Because it is long and detailed, we provide just the key concepts here. Diamond State homebuyers receive a "plain language" summary of the ground lease as well as a full copy of the ground lease, which they review with an attorney.

Rights and Responsibilities of Homeowners

With a few exceptions, Diamond State homeowners have 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 and his or her heirs.

Owner Occupancy

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

Remodeling

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

Lease Fee

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

Inheritance

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

Taxes and Assessments

As the owner of the house and leaseholder of the land, 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 of the property for future owners. Diamond State uses an appraisal-based resale formula that allows a homeowner to resell his or her home for the initial purchase price plus a share of the market appreciation on the property. The Diamond State 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.

A Diamond State homeowner cannot resell the house for full market value. When the homeowner decides to sell, our staff aids the homeowner in selling the home to another qualified household. Future buyers must meet the income limits and homebuyer selection requirements of Diamond State.

The resale formula in the ground lease determines the maximum price at which a Diamond State homeowner can re-sell his or her home. 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 Diamond State'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.

Diamond State Membership

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

The Diamond State Resale Formula – Example

EXAMPLE: CLT Buyer #1

Year			
	\$100,000	Initial Purchase Price	
2010 /	\$150,000	Appraisal of Home & Land at Initial Purchase	
	67%	Portion of Total Value Owned by Homeowner	
2021	\$200,000	Appraisal at Resale Time	
2010 -	\$150,000	Initial Appraisal	
	\$50,000	Appreciation	
	\$50,000	Appreciation	
x	67%	Portion of Total Value Owned by Homeowner	
	\$33,333	Increase in Value Attributed to Portion Owned by Homeowner	
	\$33,333	Increase in Value Attributed to Portion Owned by Homeowner	
x	45%	Shared Appreciation Factor	
	\$15,000	Homeowner's Share of Appreciation	
	\$100,000	Initial Purchase Price	
+	\$15,000	Homeowner's Share of Appreciation	
	\$115,000	Sales Proceeds to 1st CLT Owner	

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

Remember: You will need to pay off your mortgage and sales costs out of your sales proceeds.

The remaining equity after the resale remains with the home to support the goal of keeping the sale price to the next owner at an affordable level.

Diamond State Homeownership Versus Conventional Homeownership: A Comparison

		GENERIC EXAMPLE	
Area Median Income (family of 4):	Kent County 2011	\$62,000	\$62,000
		Conventional	CLT
% Area Median Income of Target Buyers:		80%	80%
Maximum Incomes of Target Buyers		\$47,600	\$47,600
SALE PRICE:		\$150,000	\$112,000
Down Payment	3.50%	\$5,250	\$1,000
FIRST MORTGAGE AMT BASED ON AFFORDABILITY:		\$144,750	\$111,000
First Mortgage Interest Rate:		6.00%	6.00%
First Mortgage Term:		30	30
First Mortgage Principal and Interest		\$868	\$666
Taxes	\$815	\$68	\$68
Homeowners Insurance	\$400	\$35	\$35
Private Mortgage Insurance	\$0	\$81	\$0
Flood Insurance	\$0	\$0	\$0
DSCLT Land Lease	\$0	\$0	\$40
TOTAL MONTHLY PAYMENT:		\$1,052	\$809
CASH REQUIREMENTS			
Down Payment	3.50%	\$5,250	\$1,000
Closing Costs	3.50%	\$5,250	\$5,250
Down Payment/Closing Cost Assistance to Buyer		\$0	\$0
TOTAL CASH TO ENTER:		\$10,500	\$6,450

If you invest the \$250/mo savings for 30 years at 2% you will have saved **\$151,000**

Am I ready to buy a home with Diamond State?

Our homeownership program is open to families, single people, seniors—any homebuyer who is income-qualified, (see below) and meets Diamond State’s eligibility criteria. 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.

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

If you want to buy a house with Diamond State, 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 application process you will meet one on one with a Diamond State staff member to review your specific situation. Although everyone’s financial situations are unique, we do expect our homebuyers to pay between 20% and 30% of their gross monthly income towards housing costs (including the monthly ground lease fee).

Diamond State 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, and other sources. Some opportunities through Diamond State may have higher or lower income limits, such as 120% or 60% of the area median income.

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. Your homeownership counselor will be a great resource for understanding credit repair.

How much do I need to have in savings?

We require that the homebuyer contribute a down payment of \$1000 from his or her 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 purchased 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 \$100 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 Diamond State. The following section outlines the process to become a homeowner with Diamond State.

The Path to Homeownership with Diamond State

Phase 1: The Application Process

Determine your eligibility and willingness to commit: You are eligible if you meet the following criteria:

1. You must be 18 years of age or older, and either a citizen or lawful permanent or nonpermanent resident of the United States.
2. 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, (for some properties, income limits are 120% of the Area Median Income or 60% of the Area Median Income). A table with income limits for Delaware’s counties is included at the end of this manual.
3. You must be able to qualify for a mortgage through a Diamond State participating lender.
4. 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.
5. 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.

We advise 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 Diamond State Homeownership Orientation: Attend a Diamond State Homeownership Orientation Session. Attending one of these free orientation sessions is your opportunity to learn about how to buy a home through Diamond State, and about the specific homes available for sale. Fill out and submit the Diamond State application form.

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

NCALL Research

Kent County
363 Saulsbury Rd.
Dover, DE 19904

302-678-9400

www.NCALL.org

New Castle County
Hudson State Service Center
501 Ogletown Rd., Rm. 306
Newark, DE 19711

302-678-9400

Sussex County
110 S. Bedford St.
Georgetown, DE, 19947

302-678-9400

Interfaith Community Housing of Delaware

New Castle County
613 N. Washington St.
Wilmington, DE 19801

302-652-3991

www.ichde.org

Kent and Sussex Counties
2 Capitol Ave.
Dover, DE 19904

302-652-3991

First State Community Action Agency

Sussex County

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

www.firststatecaa.org

Kent County

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

New Castle County

Rose Hill Community Center
19 Lambson Lane
New Castle, DE 19720
302-498-0454

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

Phase II: Mortgages & Diamond State Application Approval

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 Diamond State. A list of participating lenders will be provided.

Diamond State Approval: Application is reviewed by our staff and Selection Committee.

Phase III: Purchase

The next steps toward purchasing your home will be unique depending on which of the properties you choose. Diamond State 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. Our staff will meet with you individually to provide more in-depth education about the Diamond State program. Buyers are required to review the Ground Lease with an

experienced attorney prior to closing, and sign letters of “Stipulation and Acknowledgement”, which show that they understand the terms of the lease.

Sign a Purchase and Sale Agreement: Diamond State will provide the purchase and sale agreement. Then you’ll work with Diamond State and the developer through your purchase process. For some newly constructed 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 may want 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!

Ways to Buy Diamond State Homes

New Homes

Diamond State 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. If you are interested in a home that does not yet have a determined price, and have been placed on our ready buyer list, you may make a deposit along with your purchase letter of intent.

Resale Homes

When a Diamond State homeowner decides to sell his or her home, Diamond State helps the homeowner re-sell the home to other buyers who qualify for our program. We advertise resale homes as they become available. Interested homebuyers on the ready buyer list will be informed as these homes come up for sale.

To view our new and resale homes for sale, see the “homes for sale page” on our website: www.diamondstateclt.org.

Support for Homeowners

Diamond State makes a long-term commitment to our homeowners. Our board meets regularly to address Diamond State'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.

Diamond State 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.