

The First Homes Community Land Trust

Dwan Packnett
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Abstract

The First Homes CLT is one tool of an impressive innovative work force housing program in Rochester Minnesota. Incorporated as a 501(c)(3) non-profit corporation in 2001, First Homes was financed by a \$4 million grant from the Mayo Clinic Foundation and three annual \$1 million matching grants. Beginning with a below market interest gap loan program, First Homes added a community land trust model in 2002. Under the corporate board structure, the interests of the Rochester Area Foundation, the sole member of the First Homes corporation, are predominant commensurate to its financial risk. This board structure skews the balance of the CLT governing body. This paper explores whether First Homes' deviation from the community land trust model renders First Homes a "hybrid" of the CLT model or something other than a CLT altogether – raising the question of what constitutes a community land trust?

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The First Homes Community Land Trust

Introduction

Rochester Minnesota is the solid foundation upon which the Mayo Clinic's international reputation for medical excellence is built. With a population of 94,000,¹ Rochester is, in many ways, a company town for the Mayo Clinic's 28,000 employees. Considered one of the best places to raise a family in the United States, Rochester offers the highly educated professional employment base that fuels its economy an excellent quality of life. However, Rochester's success creates an interesting paradox. The service industry workers who support the large number of patients and medical professionals that visit the Mayo Clinic are also a critical part of Rochester's economic base. But for the service industry workers who fill the jobs that sustain its quality of life, Rochester's quality of life was out of reach. The people who clean and serve in the hotels and restaurants, work in grocery and department stores, staff public transportation facilities, and work as clerical staff in local business and government offices, could not afford to work in Rochester because they could not afford to live in Rochester. The cost of housing was too high. By 1999, it was apparent to the business community that Rochester had to do something to ensure that a stable and reliable service industry work force had access to jobs in Rochester.

Local employers asked the Rochester Area Foundation² for help, and the Foundation focused its formidable resources in search of a solution to Rochester's work force housing shortage. Given Rochester's high-priced real estate market, the development of affordable housing using conventional financing strategies was not economically feasible. Rochester did not need to build affordable housing. Rochester needed a way to make existing housing (or planned housing developments) affordable. In search of a program that would reduce the cost of existing housing and introduce service industry workers who had never purchased housing to the home buying market, the Foundation created First Homes Properties ("First Homes"). This non-profit entity was charged with the task of developing a work force housing program that would reduce monthly mortgage payments so that income-qualified workers could afford to own housing, and through homeownership, stabilize the work force. First Homes would be funded by a cross section of the Rochester business community through grants, donations and eventually, program revenue. Most importantly, however, the work force housing program would be designed so that workforce housing is a perpetual benefit in Rochester for years to come.

First Homes Properties

Incorporated as a 501(c)(3) non-profit corporation, First Homes was funded with a \$4 million inaugural grant and three successive matching grants of \$1 million each year by the Mayo Clinic Foundation. First Homes received matching funds from the Minnesota Housing Finance Agency

¹ The 2004 Rochester area population was 94,820. Rochester Metropolitan Statistical Area (MSA) Community Profile prepared by the Rochester Area Economic Development, Inc.

² The Rochester Area Foundation was formed in 1944 by the Mayo Foundation to improve the quality of life in the Rochester area through grants for community development, education and human services. In 1961, the foundation expanded its philanthropic activities to Olmstead County.

(MHFA) in an unprecedented grant of \$3 million. First Homes opened for business in early 2000 with the administration of a gap loan program,³ pending state and federal regulatory approvals to initiate the jewel in its affordable housing subsidy crown, the community land trust. By 2002, First Homes had received the approvals and was now able to provide affordable housing opportunities to service industry workers through two subsidy programs – the gap loan program and the First Homes CLT. In 2003, the First Homes CLT was adapted to include the purchase and restoration of substandard inner city housing. First Homes' community land trust program for the rehabilitation of existing housing was called the Heritage Homes program. Since 2004, the Heritage Homes program has evolved from the rehabilitation of houses to the rehabilitation of communities, incorporating the Greater Minnesota Housing Fund's planning concepts for building better neighborhoods to create affordable homes in livable communities.

The Gap Loan Program

The First Homes Gap Loan Program⁴ provides loans to income-qualified⁵ homebuyers of up to \$7,500. Structured as a 2% interest deferred second mortgage, a gap loan is coterminous with the homeowner's first mortgage and is payable at the end of the first mortgage or upon transfer of the property. If the first mortgage is funded through MHFA's Homeownership Assistance Fund (HAF) or Community Activity Set-Aside (CASA),⁶ the First Homes gap loan becomes the third mortgage and is subject to the terms and conditions of First Homes Homeowner Gap Financing Loan Mortgage agreement.

Gap loan recipients must obtain a first mortgage from a First Homes certified lender. At a minimum, the first mortgage should have:

- A fixed rate, fully amortizing loan with a minimum term of 30 years;
- The down payment cannot exceed 5% of the appraised value of the property;
- The interest rate cannot exceed the current market rate plus 1%; and
- Closing costs cannot exceed 3.5% of the total mortgage.

³ When First Homes Properties opened for business in 2000, the Rochester Area Foundation turned over the administration of the program to the Community Housing Partnership (CHP). CHP advertised the gap loan program and was immediately inundated with over 900 responses from people interested in participating in the program. Overwhelmed by the number of potential applicants, CHP responded slowly to the frustration of local lenders and builders. As a result, in 2001, the Rochester Area Foundation hired a Program Director and Program Officer to administer the First Homes program.

⁴ First Homes was incorporated as a community land trust. However, because the concept was new and not widely used, it took almost two years for First Homes to make the community land trust program available in the Rochester community. During this “set-up” period, First Homes used \$30,000 gap loans as its affordable housing subsidy. As local lenders and the MHFA became more comfortable with the community land trust concept, the gap loan subsidy was reduced to \$7,500 and offered as a separate program. Gap loans are also available as a subsidy component of First Homes' community land trust financing model.

⁵ An income-qualified homebuyer is defined as a person or group of persons whose household income does not exceed 80% of the median household income for Minnesota as calculated and adjusted for household size by the U. S. Department of Housing and Urban Development (HUD).

⁶ MHFA offers three mortgage loan programs that provide below market interest rate loans to eligible first-time homebuyers, the Minnesota Mortgage Program (MMP), the Minnesota City Participation Program (MCPP) and the Community Activity Set-Aside Program (CASA). The CASA program provides access to pools of mortgage loan funds for community-based partnerships like First Homes, that support targeted local homeownership efforts. Homebuyers obtain CASA loans through participating lenders.

Gap loan homebuyers are required to purchase homes in First Homes' target area⁷ market-rate subdivisions. First Homes certifies the builders and developers as partners in the First Homes program to ensure that construction costs are consistent with the total development cost guidelines⁸ and that each subdivision contains a mix of housing for a variety of income levels – to avoid the concentration of low-income families in one area.

Gap loans are also available as a component of the community land trust as First Homes CLT gap financing. Under this program, The First Homes Gap Loan Program⁹ provides loans to income-qualified¹⁰ homebuyers of up to \$15,000. Structured as a 0% interest deferred second mortgage, the First Homes CLT gap loan is coterminous with the homeowner's first mortgage and is payable at the end of the first mortgage or upon transfer of the property.

The First Homes CLT

Before we discuss the elements of the First Homes community land trust, following is a brief summary of the elements found in the “classic” community land trust model.¹¹ There is some debate over the number of components needed for an organization to be considered a community land trust. The analysis of whether First Homes is a community land trust is discussed in Part IV of this paper.

1. **Non-profit, Tax Exempt Corporation** – The classic community land trust should be an independent, nonprofit corporation, legally chartered in the state in which it is located.
2. **Community Base** – The community land trust board of directors should be diffused and balanced to ensure that all interests are heard but no interest is predominant.
3. **Balanced Governance** – Community land trusts are designed to operate within the physical boundaries of a targeted locale, guided by the people who live in that community. Any adult who lives in the geographic area is entitled to membership.

⁷ The First Homes “target area” also referred to as the “Rochester area” includes the city of Rochester and local communities within a thirty mile radius of Rochester, including Spring Valley, Byron, Plainview, Goodhue City, Dover, Grand Meadow, St. Charles, Pine Island, Kasson, Chatfield. See *Appendix C*, the First Homes Applicant Report as of August 31, 2005 for a breakdown of housing units provided by city location.

⁸ See *Appendix A*.

⁹ First Homes was incorporated as a community land trust. However, because the concept was new and not widely used, it took almost two years for First Homes to make the community land trust program available in the Rochester community. During this “set-up” period, First Homes used \$30,000 gap loans as its affordable housing subsidy. As local lenders and the MHFA became more comfortable with the community land trust concept, the gap loan subsidy was reduced to \$7,500 and offered as a separate program. Gap loans are also available as a subsidy component of First Homes’ community land trust financing model.

¹⁰ An income-qualified homebuyer is defined as a person or group of persons whose household income does not exceed 80% of the median household income for Minnesota as calculated and adjusted for household size by the U. S. Department of Housing and Urban Development (HUD), as demonstrated to First Homes’ satisfaction.

¹¹ John Emmeus Davis and Amy Demetrowitz, “*Permanently Affordable Homeownership, Does the Community Land Trust Deliver on its Promises? A Performance Evaluation of the CLT Model Using Resale Data from the Burlington Community Land Trust,*” May 2003, 2-3.

4. **Dual Ownership** – A legal structure of land ownership whereby the community land trust owns the land and the homeowner owns all improvements and structures located on the land. A long-term ground lease governs the relationship.
5. **Perpetual Affordability** – The community land trust retains a pre-emptive right to repurchase any structures located on its land, should the homeowner ever choose to sell. The resale price is set by a formula contained in the ground lease and typically permits the homeowner to recover the original down payment, equity earned by paying off the mortgage and the value of any pre-approved capital improvements, together with 25% of any appreciation in value.
6. **Perpetual Responsibility** – The community land trust has two long-term goals - to ensure that the homes remain affordable for subsequent owners and that the affordable housing benefit stays with an income-qualified owner.

First Homes has adapted these “classic” community land trust elements to meet the needs of its Rochester constituents as described below.

1. **Non-profit, Tax Exempt Corporation** - Formed in May 2001, First Homes Properties is a nonprofit corporation organized for the exclusive charitable and educational purpose of providing housing opportunities and preserving affordability of housing for low- and moderate-income households in the southeastern Minnesota¹² consistent with the provisions of section 501(c)(3) of the Internal Revenue Code of 1986.¹³ The sole member of First Homes Properties is the Rochester Area Foundation. Created for the benefit of the Rochester Area Foundation, First Homes carries out the purposes of the Foundation.¹⁴
2. **Community Base** - The nine members of the First Homes board of directors are appointed by the Rochester Area Foundation and are designated either “Participant” or “Public.” A “Participant” member of the board must be eighteen years or older, lease residential land or housing from First Homes or is a participant in another First Homes program (like the gap loan program). There are three “Participant” directors. The remaining six directors are designated “Public” directors and represent the interests of the Rochester Area Foundation and the broader Rochester area community.
3. **Balanced Governance** - The First Home community land trust operates within the physical boundaries of southeastern Minnesota. The interests of the Rochester Area Foundation are predominant. However, the Rochester Area Foundation board of trustees is comprised of a cross section of Rochester community interests - business, local governments, financial institutions, charitable organizations and community members, including:

¹² The “Target Area,” includes the southeastern Minnesota counties of Olmstead, Goodhue, Dodge, Mower, Fillmore, Winona, and Wabasha.

¹³ By-Laws of First Homes Properties, Article One, Section 2 (d) and (e), May 2001

¹⁴ Articles of Incorporation of First Homes Properties, Article II, March 7, 2001.

- The Rochester Area Chamber of Commerce
- Wells Fargo Bank
- IBM Corporation
- Home Federal Savings Bank
- The Mayo Foundation
- Crenlo, Inc.
- Wendland & Utz, Ltd.
- Domaille Engineering, LLC
- Canadian Honker Restaurant and Catering
- Smith Schaefer & Associates, Ltd.
- Post-Bulletin Co., LLC

In addition to the community interests represented on Rochester Area Foundation board of trustees, First Homes Properties has a solid community base in its partners, which include governmental entities, lenders, community groups and businesses. A list of First Homes' partners is found in *Appendix B*.

4. **Dual Ownership** - First Homes purchases the land from the builder and leases it to the qualified homebuyer in a 99-year lease, with an option to renew. The qualified homeowner owns the improvements or structure – the house. Upon expiration or termination of the ground lease, ownership of the improvements reverts to First Homes.

The lease agreement ensures that the qualified homeowner fully understands the concept of dual ownership, and the value of his or her property interest. Article 3 sets forth the duration of the lease while Article 4 provides for the use of leased premises, requiring that the qualified homeowner personally occupy the premises for at least 240 days of each calendar year of the lease. Under, Article 5, the homeowner must pay a monthly lease fee on a graduated scale. For years one through three, the monthly ground lease fee is \$10.00, increasing to \$30 per month in years four and five. Beginning in year six, the ground lease fee reaches its maximum amount of \$50 per month through the end of the lease.

The qualified homeowner is responsible for all taxes and assessments related to the land and the structure. In the event of delinquency, First Homes may, at its option, pay the taxes or assessments and offset the costs through an increase in the ground lease fee. The homeowner cannot sever or move improvements from the land or modify (or construct) improvements without the prior written consent of First Homes. Significantly, Article 7 of the lease acknowledges that First Homes may choose not to consent to improvements that increase the value of the property so that the housing remains affordable.

The homeowner is not permitted to take out a mortgage against the house. Mortgages are allowed only in the event of the homeowner's foreclosure or default, and even then, First Homes retains the right to cure upon written notice. In the event of foreclosure, the homeowner assigns all proceeds in excess of the purchase option price as set forth in the resale formula to First Homes.

The homeowner is required to maintain liability and property insurance at pre-set amounts and in the event of damage to the property; the homeowner is responsible for its timely repair

unless full repair and restoration is physically impossible. If the available insurance proceeds for the full repair and restoration are not more than 80% of the cost, the homeowner may terminate the lease in sixty days. During this sixty-day period, First Homes retains the right to seek an adjustment with the insurer to increase the insurance proceeds and arrange for repair or restoration of the structure. If insurance proceeds are recovered, the homeowner is limited to the purchase option price consistent with the resale formula.

5. **Perpetual Affordability** - First Homes is committed to preserving the affordability of the property and expanding access to homeownership opportunities for income-qualified households. To this end, the homeowner is only permitted to transfer the property interest to an income-qualified person. In the event that the homeowner dies, the property may be transferred through a will to the income-qualified spouse, child or member of the homeowner's family that has lived in the house for at least one year prior to the homeowner's death. If the homeowner's heir is not income-qualified, the heir must transfer the improvements to First Homes in accordance with the resale formula.

First Homes retains a pre-emptive right to repurchase any structures located on its land, should the homeowner ever choose to sell. The resale price is set by a formula contained in the ground lease which permits the homeowner to recoup the original down payment, equity earned by paying off the mortgage and the value of any pre-approved capital improvements. In addition, if homes appreciate in value, under the first homes model, the owner may recoup 50% of the equity.

6. **Perpetual Responsibility** - In order to ensure perpetual affordability, First Home CLT properties can only be transferred to income-qualified buyers. The income-qualified homeowner must live in the property for at least 240 days each year of the lease agreement.

First Homes' adaptation of the "classic" community land trust model tracks five of its six features. The First Homes community base element meets the diffuse and balanced requirement of the classic model because of the organizational structure of the board of directors. Three of the public directors are appointed to the board as community representatives. All of the community interests are equally represented by three foundation votes, three community votes and three participant votes. However, because the Rochester Area Foundation appoints all of the directors, the foundation's interests are clearly predominant to the interests of the three participant board members. Along with the predominant interest, First Homes CLT deviates from the classic land trust model in other ways as well. First Homes has the gap loan component in addition to the land subsidy and allows the homeowner to recover 50% of the equity upon resale instead of the 25% used in the classic land trust model. The question becomes does First Homes changes to the classic community land trust model make it something less than a community land trust.

The First Homes Community Land Trust Financing Model

The community land trust financing model can be used in conjunction with a variety of subsidies provided by First Homes, MHFA or other financial institutions, as demonstrated below.

Item/Subsidy	Amount	Comments
Total Development Cost	\$153,000	See <i>Appendix A</i>
TIF deduction	- 10,000	Tax Increment Financing is limited in accordance with specific neighborhood allocations as set forth by the local government
Subtotal	\$143,500	
FH Land Subsidy	-30,000	First Homes Land subsidy of \$30,000
Subtotal	\$113,500	
CASA	-13,000	\$8,000 equity contribution and \$5,000 down payment assistance
Subtotal	\$100,500	
FH CLT GAP loan	-15,000	First Homes provides gap loan assistance to CLT financing up to \$15,000.
Financing Cost	\$85,500	Home is financed at this amount.

The First Homes CLT provides financing of up to \$15,000¹⁵ in the form of a gap loan and \$30,000 as a land subsidy, only to the extent the funds are needed to help a homebuyer meet a certified lender's financing eligibility requirements. So, in the example set forth above, if the lender determined that under the income-qualified homebuyer's debt to equity ratio, the homebuyer had the resources to pay a \$105,000 housing cost instead of the \$85,500 used in the example, the homebuyer would be eligible for \$8,500 (instead of \$13,000) of CASA subsidy because this homebuyer no longer needs the additional funds to finance the purchase of the home.

The First Homes staff works with local builders, lenders and public financing institutions to develop a comprehensive subsidies program tailored to meet the needs of the Rochester area community. In addition to First Homes and MHFA subsidies described in the financing model, MHFA also provides monthly assistance as a part of its Homeownership Assistance Fund (HAF) monthly assistance program. Under the HAF monthly assistance program, the homebuyer receives a sliding scale reduction on the monthly mortgage payment for three years. For the first year the subsidy reduction totals \$60 per month, in year two, \$40 per month and by year three the monthly reduction totals \$20 per month.

¹⁵ The \$15,000 CLT gap loan represents a recent program increase. Until about three months ago, June 2005, the First Homes gap loan in conjunction with the community land trust was \$7,500.

Heritage Homes

In April 2004, First Homes expanded its community land trust model to include investment in inner city neighborhoods through the rehabilitation of substandard structures that are vacant, have been abandoned or are in foreclosure. Working with the neighborhood to identify structures in poor condition, First Homes purchases the property and either restores or demolishes the structure, replacing the substandard structure with one constructed to a market-rate standard. Typically, properties eligible for this program are former single-family homes roughly used by the absentee owner as a rental property to maximize the number of tenants. Suffering from deferred maintenance and neglect, these houses become a fertile breeding ground for homeless transients, drugs and crime. As more of these dilapidated structures replace single-family homeownership, the neighborhood begins to decline as property values slide reflecting the deteriorating physical condition of these houses. Through the purchase of these properties, First Homes helps to stem this tide of economic decline by repairing the physical condition of the neighborhood through the elimination of blight associated with vacant homes.

The Heritage Homes program began in Kutzky Park, an inner city neighborhood of delightful old homes of character and interesting design features. Kutzky Park has a significant rental population. First Homes assisted the Kutzky Park neighborhood to form a cohesive group of community activists that could prepare a plan to improve the physical condition of their neighborhood. Working with the community, First Homes and the community agreed to focus on the worst properties. First Homes purchases the property, and through the Heritage Homes Program Officer Shirley Lee, develops a work plan, budget and scope of work for the rehabilitation. Ms. Lee then manages the reconstruction. First Homes pays all construction costs investing in energy efficient furnaces, fixtures, windows, and doors to keep the cost maintenance and utilities low.

Once the construction is completed, the property is appraised and the sales price becomes the appraised value less the \$30,000 subsidy for the land. The Heritage Homes rehabilitation may lose money on the more difficult homes to ensure affordability. But to the extent that the rehabilitation encourages other homeowners to fix up their property, raising the land values of other Heritage Home homes in the neighborhood. Consequently, any losses on a particular property are considered an investment toward improving the long-term condition of the neighborhood. Finally, with the assistance of lenders and the First Homes Program Officer, Cheryl Richardson, a prospective homebuyer is identified to purchase the home.

Imagine Kutzky

Kutzky Park is located in the heart of Rochester and is surrounded by shopping, a park connected to the bike path system and recreational opportunities. The Imagine Kutzky program is a First Homes' reinvestment initiative and partnership with the Kutzky Park neighborhood to encourage new development that is compatible with preservation. Since 2003, the Kutzky Park has transformed from a pessimistic and obstructionist community association in a declining neighborhood to a confident association of community activists empowered to choose the direction of their neighborhood revitalization.

The Imagine Kutzky program was born out of the Heritage Homes program. First Homes, needing the input of the Kutzky Park community to provide design and planning concept direction for the rehabilitation of its homes, recognized that Kutzky Park “community” was somewhat transient and lacked cohesiveness. Most importantly, however, Kutzky Park lacked a revitalization plan that set forth the planning goals and design concepts for the neighborhood that Heritage Homes program officer could follow as she took on more rehabilitation projects in the neighborhood. In need of design guidelines, Sean Allen, First Homes’ executive director created a committee to respond to the planning concepts and design guidelines on a case-by-case basis. In the mean time, the Kutzky Park neighbors, working in partnership with First Homes, began building a community organization to develop a revitalization plan with development goals and objectives to improve the condition of the community.

In 2005, the Kutzky community received a \$20,000 grant from First Homes to fund Kutzky Park’s community organization and planning efforts. Beginning with a visioning process conducted by a local architect and planner, “Imagine Kutzky” was born. To date, the community has developed traffic calming recommendations, prepared plans for the city council’s adoption of a special overlay district, conducted market research and assessment of neighborhood, and developed a Kutzky Park Citizens Advisory Committee to guide revisions to the visioning plan. Future projects for Imagine Kutzky include the exploration of the feasibility of a Kutzky Park historic district and encouraging investment in older single-family structures with compatible, infill housing. With the implementation of this development plan, Kutzky Park and First Homes can work in partnership to replace blighted structures with attractive and architecturally compatible housing.

Using Kutzky Park as a model, First Homes has a long-range plan to expand the Imagine Kutzky prototype to other inner city Rochester neighborhoods. Through the visioning and planning process, First Homes, in partnership with each community, will create workforce housing and livable communities using the building better neighborhoods planning concepts.

The First Homes Program Home Buying Process

Program Eligibility

First Homes makes homeownership affordable by reducing monthly mortgage payments for income-qualified homebuyers. Despite its name, the First Homes program is not dependent on previous home ownership and is available to any person or family that meets the income limits based on family size. The income guidelines for the state of Minnesota are set forth below.

HUD INCOME GUIDELINES	
Household size	80% of State Median Income
1	\$37,500
2	\$43,000
3	\$48,500
4	\$54,000
5	\$58,000
6	\$62,500
7	\$66,500

The First Homes home buying procedure begins with the prospective homebuyer's visit to a First Homes certified lender. Once the income eligibility guideline is met, the homebuyer must have good or repairable credit to qualify for a mortgage as determined by a First Homes certified lender. Prospective homebuyers with repairable credit are referred to Home Stretch. A credit counseling workshop sponsored by the Community Housing Partnership,¹⁶ the Home Stretch program counselors work with prospective homebuyers to help them understand the terms and conditions of the loan programs, especially qualification restrictions and requirements.

The First Homes Home Buying Procedure

The First Homes community land trust encourages self-sufficiency as it is up to the homeowner to decide which builder or subdivision to live in and to determine design features on the house, and to meet with lenders. First Homes, having certified these builders and lenders under First Homes' program guidelines, does not participate in contract negotiations between the homebuyer and its lender or builder.

Step 1. The Lender Approves the Homebuyer for the Community Land Trust Program. The lender determines program eligibility and the types and amount of subsidy for which the prospective homeowner is eligible. The lender then approves the homebuyer for one of the First Homes community land trust programs. The homeowner then selects a neighborhood and builder within the First Homes target area to construct the home within the total development cost formula.

¹⁶ The Community Housing Partnership is a non-profit organization that sponsors the nine-hour Home Stretch workshop and additional private counseling. The program is designed to help the homebuyer understand the home buying process, decide if home buying is right option, assist the homebuyer to successfully complete a mortgage application and to prepare the homebuyer for the responsibilities of homeownership.

Step 2. The Homebuyer signs the Purchase Agreement with the Builder for the Buildings and Improvements. The community land trust anticipates a dual ownership model with First Homes owning the land and the homebuyer owning the improvements. The homebuyer and the builder enter into an agreement for the construction of the house in accordance with the total development cost guidelines in *Appendix A*. The builder simultaneously enters into an agreement with First Homes whereby First Homes agrees to purchase the land for \$30,000.

Step 3. First Homes Signs a Purchase Agreement with the Builder. The Purchase Agreement executed by First Homes contains a contingency clause that states that if the homebuyer does not close the transaction with the builder, the Purchase Agreement between First Homes and the builder is void. First Homes purchases the land from the builder for \$30,000 in a transaction separate from the homebuyer's purchase of the structure. First Homes then leases the land to the homebuyer for an initial term of 99 years.

Step 4. The Buyer meets with a First Homes Program Officer. First Homes staff meets with the homebuyer for an orientation on the community land trust program.

Step 5. The Buyer meets with his Attorney to review the terms and conditions of the Ground Lease.

Step 6. The Builder Completes Construction and a Closing is Scheduled. The lender conducts a walk through with the homebuyer and builder and a closing is scheduled. At the closing, the Builder signs a Declaration of Severance to formally disconnect the land from the improvements. The builder then conveys title to the structure or improvements to the homebuyer and title to the land is conveyed to First Homes, through separate warranty deeds.

First Homes Community Land Trust Resale Calculation

First Homes purchases all community land trust resale homes. With First Homes as the purchaser, the property will remain affordable because First Homes controls the sales price of the home through the resale formula and can monitor the condition of the property. First Homes has a waiting market of income-qualified purchasers, so the homeowner does not have to pay fees to a realtor. The community land trust resale calculation is set forth below.

New Home		Notes
Total Property Value (Land & Home)	\$135,000	The First Homes Subsidy reflects the \$30,000 land cost and \$10,000 TIF payment ($40,000/135,000=29.6\%$ or 30%)
First Homes Subsidy 30%	- <u>40,000</u>	
Home sale price 70%	\$ 95,000	The ratio of the First Homes land purchase to home value – 30% and 70% in this example– will remain the same for the second sale of the property.
Resale		Notes
Total Property Value (land and home)	\$160,000	Approximate appraised value after five years.
First Homes Subsidy 30%	- <u>48,000</u>	$\$160,000 \times 30\%$

Home value	70%	\$112,000	
Original sale price		<u>- 95,000</u>	
Appreciation		\$ 17,000	Home resale value minus original home value
Homeowners' share of appreciation (50%)		\$ 8,500	Homeowners and the community land trust evenly split the appreciation
Buyers' pay down on principal		<u>+ 5,000</u>	The original homeowners receive 100% of the down payment when house is resold.
Total gain for original homeowner		\$13,500	Home owners' share of Appreciation (\$8,500) + buyers equity earned + down payment (\$5,000)
Second sales price		\$103,500	\$112,000 (Resale home value) minus \$8,500 (CLT share of appreciation). ¹⁷

The \$30,000 land subsidy is offset in the resale calculation. For the community land trust, the maximum sales price of a First Homes house is \$135,000 (\$145,000 with a tax increment financing commitment of \$10,000). Accordingly, the total development cost for a First Homes property cannot exceed \$135,000 (\$145,000 for TIF properties) including upgrades.¹⁸ A list of total development cost limits is provided in *Appendix A*.

Under the First Homes resale formula, the homeowner retains 50% of the equity in the house instead of 25% in the classic community land trust model. In addition, First Homes deducts the increase in equity from the first sale from the second sales price in an effort to keep prices down.

Program Operations and Management

First Homes is a well-run affordable housing program management firm. It is not a social services agency. Focused on the effective delivery of work-force housing units, each member of the First Homes staff has a clear understanding of the First Homes program, related financing products, and the development goals of the community. Long-term members of the Rochester area community, the First Homes team blends their knowledge of the community and expertise with financial models to create and manage a program that is flexible and user friendly - making the process as painless as possible for the homebuyer. The First Homes staff keeps track of every community land trust unit requiring contact with homeowners. However, the team, with patience and diplomacy, refers social services related issues to alternative community programs.¹⁹

The First Homes program began with an aggressive goal of completing 875 units of work force housing in five years. As of August 31, 2005, First Homes has constructed 662 work force housing units.

¹⁷ With the community land trust, the home is sold below the market value every time it sells.

¹⁸ CASA borrowers are permitted to exceed the \$135,000 limit if two sellers' points are added to the sales price.

¹⁹ The city of Rochester has a public housing authority, homelessness programs as well as religious community programs.

Housing Type	Number of Units Completed
New Construction Single Family Homes	321
New Community Land Trust Homes	112 ²⁰
Workforce Rental Units	229
Total Units Completed	662

Once First Homes brings the remaining 216 homes on line, it will be well positioned to receive program revenue generated from monthly lease payments, developer's fees on the rehab units, and interest on investments. With the expansion of the Heritage Homes program into other inner city Rochester neighborhoods and the community revitalization program Imagine Kutkzy, First Homes is evolving programmatically, from building homes to building communities.

First Homes has successfully met its housing goals because it forms productive collaborative relationships with its partners and manages those relationships well. Through collaboration, First Homes' staff delegates program-qualifying responsibilities to the appropriate professional partner - freeing up valuable staff time for more productive activities like monitoring the condition of property, creating new housing product and adapting current programs to respond to the ever changing needs of the community. As a consequence, the First Homes program is a carefully coordinated integration of real estate activities with the certified lender in the role of program gatekeeper. This organizational model, with First Homes as the program manager and not the deliverer of basic services, eliminates an unnecessary layer of bureaucratic meetings making the process a lot easier for the prospective homebuyer,

Is First Homes a Community Land Trust?

The First Homes program has adapted the classic community land trust model to meet the interests of the constituents of Rochester Minnesota, creating a community land trust model that is, for the most part, a hybrid of the classic model. The First Homes community land trust has one program departure from the classic community land trust model - the representation of the community interests as reflected in organizational structure of the non-profit's board of directors. Because the Rochester Area Foundation appoints all board members, and the program participants are limited to three of the nine board memberships, the interests of the Rochester Area Foundation are predominant and do not necessarily reflect the interests of the Rochester community.

The First Homes business organization model raises a fundamental question. What makes an organization a community land trust? How many of the classic land trust components must be met? And, is there any room for an organization, like First Homes, to adapt the classic model to a workable model that reflects the interests of the community organization that provides its funding? Arguably, a community land trust is defined by the legal structure of the dual

²⁰ Although 112 community land trust units have been produced, the total transactions total 114, reflecting the resale of two community land trust units. In both cases, the owners sold for personal reasons such as getting married.

ownership interests in the property. Where there is a dual ownership of improvements and land held separately, and a non-profit corporation holds a long-term ground lease in perpetuity and for the benefit of the community, a land trust has been created. As a consequence, the determination of whether First Homes is a community land trust turns on whether the concept of community can exist in a model where the board members are appointed by the funding organization and participation in the policy decisions is not extended to members of the entire community.

The traditional land trust model envisions community input from all sectors of the community in “equal” positions with no interest predominant over another. In many ways, the traditional community land trust model will only work where each community sector that seeks representation of their interests, bears financial risk in the organization proportionate to their representation. Under these circumstances, participant members of the First Homes board of directors may be more than willing to subordinate their right to the equal representation of their community interests to attract the participation of a deep pocket contributor like the Rochester Area Foundation. So long as the community members are choosing to subordinate their community interests, and the financial resources are not the city of Rochester’s share of public funds, this type of program adaptation does not substantially change the community representation goals and objectives envisioned by a classic community land trust. First Homes’ organizational structure of its board of directors provides one workable solution to the problem presented when the community land trust interests cannot be equitably distributed because of the disproportionate financial risk assumed by one deep pocket member.

Recommendations

1. The First Homes community land trust does not permit the structure or land to be used as collateral for a loan. As a result, First Homes CLT homeowners who want to improve their home to accommodate changes in family size cannot get home improvement loans. First Homes, in its spirit of program flexibility, should consider ways to make home improvement funds available to homeowners in good standing based on the resale formula. The loan could be offset by the equity payment due to the homeowner.
2. As First Homes moves into the development of affordable infill housing in inner city neighborhoods, the program should consider the potential impact of the improved condition of the neighborhood on property taxes. As the neighborhood becomes more desirable, it is likely that low-and moderate-income families may not be able to afford the commensurate increase in property.
3. Presently, First Homes is operating under a policy of purchasing all of the resale community land trust properties. First Homes should evaluate the impact of this policy on its cash reserves, in the event that several owners decide to sell the their homes at once.

Appendix A **Total Development Cost**

The Total Development Cost (TDC) sets forth the maximum limit for First Homes houses, based on number of children in the household. The loan officer, using standard underwriting criteria, will determine the number of children in the household.

Family Size	Finished Space	Total Development Cost
0-1 Child	2 Bedrooms	\$153,500.00
2 Children	3 Bedrooms	\$161,000.00
3 Children	4 Bedrooms or 3 Bedrooms and 2 Baths	\$163,500.00
4 Children	4 Bedrooms and 2 Baths	\$169,000.00

The total development cost limit is \$153,500 but may be increased where appropriate to accommodate family size, although an increase is not required.

Appendix B **First Homes Partners**

- Bessler Management
- Bigelow Builders
- City of Byron
- City of Chatfield
- City of Dover
- City of Grand Meadow
- City of Hayfield
- City of Kasson
- City of Pine Island
- City of Plainview
- City of Rochester
- City of Spring Valley
- City of Zumbrota
- Community Housing Partnership
- County of Olmstead
- Countrywide Home Loans
- David Drown Associates
- DeWitz Construction
- Eastwood Bank
- Fannie Mae
- Federal Housing Administration
- Five-Star Homes
- Freddie Mac
- GGG, Inc.
- Greater Minnesota Housing Fund
- Home Depot
- Home Federal Savings Bank

-  Kutzky Park Neighborhood Association
-  Lumber One Avon
-  Mayo Foundation
-  McGhie & Betts, Inc.
-  Menard's
-  Merchants Bank
-  Minnesota Community Land Trust Coalition
-  Minnesota Housing Finance Agency
-  Ohly Law Office
-  Olmstead County Housing and Redevelopment Authority
-  PADCO, Inc.
-  Peoples State Bank of Plainview
-  Premier Bank
-  Rochester Area Chamber of Commerce
-  Rochester Area Foundation
-  Rochester Area Habitat for Humanity
-  Rochester Title & Escrow Co., Inc.
-  Semac
-  Shelter Corp.
-  Southeast Minnesota Association of REALTORS
-  Southeastern Minnesota Multi-County Housing and Redevelopment Authority
-  Southern Minnesota Initiative Foundation
-  Springer Appraisal Associates, Inc.
-  Three Rivers Community Action
-  Title Services, Inc.
-  Tonna Mechanical
-  U.S. Bank
-  U. S. Department of Agriculture Rural development
-  U.S. Department of Housing and Urban Development
-  Weis Builders, Inc.
-  Wells Fargo Home Mortgage

Appendix C

Family Size Demographics

Total Applicants			Closed Loans		
Family Size	Number Households	Average Income	Family Size	Number Households	Average Income
1	213	\$27,730	1	204	\$27,676
2	111	\$28,140	2	104	\$27,946
3	53	\$30,983	3	52	\$30,919
4	30	\$33,194	4	30	\$33,194
5	22	\$30,135	5	20	\$30,729
6	11	\$29,689	6	11	\$29,689
7	6	\$23,712	7	4	\$24,615
8	8	\$30,642	8	8	\$30,642
Total:	454		Total:	433	

Race Demographics

Total Applicants			Closed Loans		
Race	Number Households	Total Household Members by Race	Race	Number Households	Total Household Members by Race
White	376	443	White	361	425
Black	34	54	Black	31	50
American Indian/Alaskan	4	6	American Indian/Alaskan	4	6
Asian/Pacific Islander	18	27	Asian/Pacific Islander	17	25
Hispanic	12	20	Hispanic	12	20
Other	10	17	Other	8	14
Total:	454	567	Total:	433	540

Family Type Demographics

Total Applicants			Closed Loans		
Family Type	Number Households	Average Income	Family Type	Number Households	Average Income
Couple With Children	77	\$31,977	Couple With Children	75	\$32,477
Couple No Children	33	\$32,289	Couple No Children	30	\$32,453
Single Female With Children	113	\$26,990	Single Female With Children	106	\$26,730
Single Female No Children	109	\$27,137	Single Female No Children	105	\$27,119
Single Male With Children	11	\$32,740	Single Male With Children	11	\$32,740
Single Male No Children	109	\$28,363	Single Male No Children	104	\$28,343
Other	2	\$26,584	Other	2	\$26,584
Total:	454		Total:	433	

Household Totals

Total Applicants		Closed Loans	
Adults	579	Adults	548
Children	420	Children	393
Total	999	Total	941

Total Number of Applicants	454
Number of Closed Loans	433
Number of Pending Purchase Agreements	12
Average Final Gap Amount	\$14,113
Average Final First Mortgage Amount	\$98,363
Number Community Land Trust Closed	112
Number Community Land Trust Resales	2

Fund Balance Summary

Funding Agency	Amount Approved	Amount Disbursed	Fund Balance
GMHF	\$1,580,000	\$934,498	\$645,502
MHFA	\$3,416,632	\$3,063,193	\$353,339
RAF	\$3,000,000	\$2,109,300	\$890,700
TOTAL:	\$7,996,632	\$6,107,091	\$1,889,541

Subdivision Report

Project	City	Units Allocated	Units Sold	Units Remaining	Average Sale Price
Capelle	Spr. Valley	12	12	0	\$108,661
Cheery Meadows	Byron	6	6	0	\$114,942
Diamond Ridge	Rochester	25	25	0	\$113,075
Fisk Acres	Plainview	20	2	0	\$125,000
Habitat	Goodhue Cty	5	1	4	\$112,000
Habitat	Rochester	25	18	7	\$132,059
Harvest Ridge	Plainview	18	3	15	\$140,167
Henry Estates	Dover	45	34	11	\$127,231
Heritage Homes	Rochester	16	6	10	\$139,120
Kingsbury	Rochester	60	60	0	\$118,243
Lindon Manor	Kasson	30	30	0	\$122,056
Lonestone	Chatfield	20	7	13	\$136,567
Manorwood	Rochester	15	12	0	\$121,892
Manorwood Lakes	Rochester	20	18	2	\$121,951
Pheasant Run	Grand Mdw	11	11	0	\$126,668
Regional CLT	Scattered	10	2	8	\$140,000
Rose Harbor	Rochester	95	95	0	\$120,593
Southfork	St. Charles	16	2	14	\$146,900
Valley Side	Rochester	112	72	40	\$118,485
Wazuweeta Woods	Pine Island	28	22	6	\$118,314

Community Land Trust Property Locations

Subdivision	Location	# Closed Units
Capelle Addition	Spring Valley	1
Diamond Ridge	Rochester	1
Habitat	Goodhue Cty	1
Habitat	Rochester	18
Harvest Ridge	Plainview	3
Henry Estates	Dover	5
Heritage Homes	Rochester	6
Lonestone	Chatfield	2
Pheasant Run	Grand Meadow	6
Kingsbury	Rochester	6
Lindon Manor	Kasson	2
Manor Woods	Rochester	2
Manorwood Lakes	Rochester	2
Regional CLT	Regional	2
Rose Harbor	Rochester	25
Valley Side	Rochester	14
Wazuweeta Woods	Pine Island	15