



Selling Guide

Published May 26, 2015

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B5-5.1-04: Community Land Trusts (08/26/2014)

This topic contains information concerning mortgage loans secured by a leasehold estate on property owned by a community land trust, including:

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Community Land Trusts Overview

Fannie Mae purchases or securitizes first mortgage loans secured by a leasehold estate on property owned by a community land trust and the improvements on the property as long as the property is acceptable as security for the mortgage.

Community land trusts are created to preserve long-term affordable housing by purchasing homes in their communities, then leasing the land using a long-term ground lease to low-income and moderate-income families at affordable monthly ground rents. Eligible community land trusts must be nonprofit organizations or public entities, such as state or local governments, counties, school districts, universities, or colleges. The ground lease includes provisions that require the continued use of the property for low-income and moderate-income families in the future.

Eligible Borrowers

Because of the affordable terms that it offers, a community land trust usually includes in its ground lease restrictions on borrower eligibility, as well as on the resale of the property improvements. Eligible borrowers must satisfy the specific eligibility criteria set up by the community land trust.

Note: If the lender is using a community lending mortgage and the borrower income limits for the community land trust differ from Fannie Mae's income limits for the community lending mortgage, the income limits established by the community land trust apply.

Eligible Property and Occupancy Types

All mortgage loans secured by one- and two-unit principal residences are eligible for purchase by Fannie Mae with the exception of manufactured homes and units in a co-op project.

Loan Eligibility

Eligible transaction types include first mortgages secured by community land trust properties that are either purchase or refinance transactions. The community land trust may permit the borrower to refinance the mortgage loan, including cash-out transactions. However, the community land trust organization guidelines may limit the refinance amount in order to protect the subsidy invested in the property. Lenders must document that the community land trust has approved a refinance transaction and must ensure that the refinance amount complies with the provisions of the lessee's ground lease. Adjustable-rate mortgages with an initial fixed period of less than five years are not eligible.

Underwriting Considerations

These mortgages must be manually underwritten and are not eligible for submission through DU. In addition, they may not be underwritten using any other automated underwriting application because Fannie Mae uses an alternative method for calculating the LTV ratio. The following table describes requirements related to mortgage loans secured by properties held by community land trusts.

✓	Requirements for Mortgage Loans Secured by Properties Held by a Community Land Trust
	The community land trust organization must have the capacity to administer leasehold mortgages.
	The community land trust or its affiliated organization must have at least two years experience in successfully managing affordable housing, which can be evidenced by an organizational resume or history that summarizes the organization's experience in providing affordable housing.
	The lender must review a list of the staff responsible for the community land trust's homeownership program, their titles, and their resumes to determine if they have sufficient experience and skills to manage affordable housing.
	The lender must review the most current annual report or other report documenting the history and successful performance of the community land trust for the most current year.

✓	Requirements for Mortgage Loans Secured by Properties Held by a Community Land Trust
	The lender must review the subject community land trust's ground lease to confirm that it is based upon either the <i>National Community Land Trust Network (NCLTN) 2011 CLT Network Model Ground Lease</i> or the <i>Institute for Community Economics (ICE) Model Ground Lease</i> . The lender can request a copy of either model ground lease from NCLTN. If the ground lease is not based on either of these model leases, the lender must obtain Fannie Mae's approval of the ground lease.

Note: If the community land trust organization does not meet the requirements noted above, the lender may discuss the community land trust's qualifications with its lead Fannie Mae regional office and obtain approval for an exception (see E-1-03, List of Contacts).

Ground Lease Requirements

The term of the estate created by the ground lease must extend for at least five years beyond the maturity date of the mortgage that is delivered to Fannie Mae.

The community land trust ground lease may include certain restrictions limiting future property purchasers to low-income and moderate-income families and to limit the maximum sales price of the property. The resale restrictions in the ground lease must terminate automatically on foreclosure (or the expiration of any applicable redemption period) of, or acceptance of a deed-in-lieu of foreclosure for, the leasehold mortgage. Once any resale restrictions have been terminated by foreclosure (or the expiration of any applicable redemption period) or acceptance of a deed-in-lieu of foreclosure, they may not be automatically reinstated for subsequent purchasers of the property.

When a mortgage is secured by property held by a community land trust, the lender must confirm that all ground lease rents and other payments or assessments that have come due have been paid before it delivers the mortgage to Fannie Mae. In addition, the borrower must not be in default under any other provisions of the ground lease, nor may the ground lessor have claimed such a default.

LTV Ratio Calculation

The LTV ratio will be determined by dividing the original loan amount by the value of the leasehold interest and improvements reported on the property appraisal. The sales price for the improvements situated on the land does not include the subsidy amount used to acquire the land, which means that a borrower will pay a lower purchase price for his or her home (often less than the leasehold interest in the property). Therefore, the community land trust sales price may not be a reliable indicator of market value for the leasehold estate.

See B4-1.4-06, *Community Land Trust Appraisal Requirements*, for information when appraising properties in a community land trust.

Delivery Data

Lenders selling and servicing mortgage loans secured by properties held by a community land trust must be able to identify and track those mortgages in their systems and must have sufficiently trained staff to originate and service those mortgages.

When delivering mortgage loans secured by community land trust properties, the lender must

- include SFC 054 as part of the delivery data,
- enter the value of the leasehold (inclusive of the improvements) as the appraisal amount in Loan Delivery, and
- calculate the LTV ratio using the leasehold value and include this ratio as part of the delivery data.

Notification to Third Parties

Fannie Mae will purchase mortgages secured by community land trust properties that require the lender to notify a third party, such as a housing authority or government agency, upon the borrower's default or property foreclosure, as required by the community land trust ground lease. The lender must ensure that proper notification is provided, as required by the community land trust ground lease. If notification requirements exist, the servicer is still responsible for adhering to Fannie Mae's established time frames within which routine foreclosures must be completed. Third-party notifications required in addition to the required statutory notifications will not be considered an impairment to the servicer's ability to foreclose.

Legal Considerations

The leasehold estate created by the community land trust ground lease must constitute real property under applicable law. In all respects, the ground lease must be valid, enforceable, and in full force and effect. Lenders must ensure that any mortgage secured by a community land trust property and delivered to Fannie Mae is supported by the appropriate leasehold interest documents, including the community land trust ground lease and the *Community Land Trust Ground Lease Rider (Form 2100)*. Form 2100 must be executed by the borrower and recorded along with the ground lease. This form was developed for use with either the *NCLTN 2011 CLT Network Model Ground Lease* or the *ICE Model Ground Lease*. The form

- ensures that the ground lease is in conformity with Fannie Mae requirements for community land trust mortgages without a delay that would result from Fannie Mae's prior review and approval of each ground lease, and
- removes resale restrictions as well as any other restrictions that may be included in the ground lease that could affect the value of the property from the community land trust's ground lease.

The land records for the subject property must include adoption of the terms and conditions that are incorporated in this ground lease rider. Fannie Mae's approval is required if the rider is modified or is not executed.

Title Insurance Requirements

The lender's title insurance policy or an endorsement to the policy must expressly confirm

- the recording of the complete community land trust ground lease or ground lease memorandum;
- the recording of Form 2100;
- that the community land trust mortgage loan is a first lien on the leasehold estate and the improvements;
- that there are no existing mortgage loans or other liens on the fee estate, except as may be permitted under Form 2100;
- that the ground lessor's reversionary interest is subordinate to the community land trust mortgage; and
- that there are no related community land trust ground lease occupancy and resale restrictions, covenants, or agreements that "run with the land," and that have been recorded apart from the ground lease, except as may be permitted under Form 2100.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014-11	August 26, 2014
Announcement SEL-2014-03	April 15, 2014
Announcement SEL-2011-03	March 31, 2011
Announcement SEL-2011-01	January 27, 2011

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