

HOMEBUYER ONLINE ORIENTATION



412 Maynard Ave S Suite 201
Seattle WA 98104
206-323-1227
info@homesteadclt.org

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INTRODUCTION to Homestead Community Land Trust



Who is Homestead?

Homestead Community Land Trust empowers individuals, stabilizes families and strengthens neighborhoods by creating and preserving affordable homeownership opportunities for modest-income homebuyers in King County.

Who buys through Homestead's program?



As of December 2016, Homestead has partnered with 238 households in the purchase of their first home. The people who purchase homes through Homestead's program are finished renting and ready to be homeowners, but cannot afford to buy a home on their own due to high prices.

Homestead's Recent Homeowners:

- Healthcare Advocate – Non-profit
- Graduate Program Advisor – University of Washington
- Head Start Program Coordinator – Renton School District
- Gym and History Teacher – High School
- Hair Stylist – Downtown Salon

PROBLEM: The Reality of Buying a Home in King County

PUTTING HOMEOWNERSHIP WITHIN REACH

Homestead homes are affordable to those who make less than 80% of area median income.



Sources: Homestead, Zillow 11.16.2016

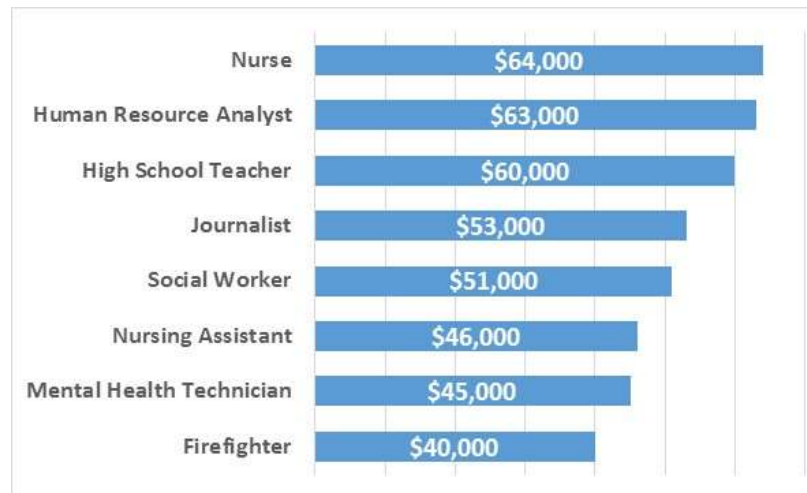
The reality is King County is expensive. Housing prices are out of reach for most of us.

The Median Price of a Home

When the median home price requires \$100,000 income and King County's median household income is \$73,000³, the math just doesn't add up.

Homestead homeowners work in the professions listed below. We acknowledge the rising need for affordable homes; the average annual household income of our homeowners is **\$44,000**. In partnership with Homestead, you can afford to live in the communities where you work.

Average Incomes in King County



Source of Salary Information: Indeed.com 12/2016

SOLUTION: What We Do

Homestead puts homeownership within reach through our community land trust model.

A community land trust is a non-profit organization that purchases land and uses it to benefit people of modest incomes. Homestead's work is focused on housing. When a family purchases a home from a CLT like Homestead, the land itself remains within the non-profit land trust, reducing the cost of home by at least 30 to 50%. Homeowners in our program agree to sell their home – if and when they decide to do so– at an affordable price; the land stays in the trust, keeping the home permanently affordable for future families.

In the U.S., CLTs have roots that come from the Civil Rights movement in the American South in the 1960's. Community land trusts were formed to preserve access to land for persons excluded due to race, social status, or level of income.

CLTs use a real estate model called a leasehold agreement. In Homestead's model, we use a legal agreement called a **ground lease** to keep homes affordable for the individuals and families we serve.



LOGISTICS: How the Ground Lease Works

The ground lease is a document that buyers in our program sign at closing that details the terms of their purchase assistance from Homestead. Homebuyers will review these legal agreements with Homestead staff and discuss all the details prior to buying a home. Some of the key points are:

- The ground lease is valid for 99 years and is renewable after that.
- You can pass on the home to your family – the ground lease is inheritable.
- The ground lease :
 - Requires that the owner of the home lives there
 - States the formula maximum resale price the house can be sold to the next buyer
 - Includes the ongoing lease fee to Homestead- \$75/month. This fee supports services provided to homeowners.
 - Grants the owner membership into and voting rights in the community land trust.
 - Requires the owner to insure home, pay taxes and maintain home.



Home



Land

What are the Benefits of Homeownership with Homestead?



- The purchase price is much, much lower - typically at least \$100,000 less than a market-rate home.
- If and when you decide to sell, you receive a reasonable rate of return on your investment.
- You have the long term security of owning your own home.
- You accumulate equity in a conservative and steady rate. Your investment is protected from the extremes of market ups and downs.
- You enjoy the tax benefits of homeownership.
- You have an affordable housing payment protected from increase.
- Your property taxes may be reduced.
- You receive ongoing support, classes, and services from Homestead after closing to insure your success.

What Homes Do We Currently Have Available?



There are two primary paths to homeownership:

- **Homes We Build or Rehabilitate:** Homestead actively builds new construction or purchases existing properties which we remodel and prepare for modest-income buyers.
- **Homestead Re-sales:** Current Homestead homeowners notify staff if and when they decide to sell their homes. Homestead helps current owners find income qualified buyers who may be in purchasing these homes.

To get first notice of properties as they become available, fill out our online application to join our interest list

Do I Qualify?

In order to become eligible for homeownership through Homestead's program:

- **You must be a first time homebuyer.** This means you have not owned a home in the past three years.
- **You must meet the required minimum income.** King County has high home costs and therefore, the minimum income we can typically serve is \$30,000 per year and up, unless you have a significant down payment (e.g. \$20,000 or more).
- Your **total household income** (counting everyone in your home, regardless of if they will be on the mortgage) must be at or below the following limits.
 - If you are close to the limits or not sure, call us and we will review your income together.

<i>People in your Household</i>	<i>Yearly Gross Income cannot be more than</i>
1	\$46,100
2	\$52,650
3	\$59,250
4	\$65,800
5	\$71,100
6	\$76,350
7	\$81,600
8	\$86,900

- **You must be able to qualify for a Conventional Mortgage through a participating lender partner.** (See "How do I Qualify for a Mortgage?")



- **You must be able to contribute at least 1% of the home purchase price or \$2,500 (whichever is greater) to the down payment.** You must also spend all but \$5,000 of your *liquid* assets (checking and savings), if you have that much, on the home purchase. For example; a homebuyer with \$11,000 in savings must make a \$6,000 down payment.
- Finally, **you must understand Homestead’s mission and efforts to create permanently affordable homes in King County.**



How do I Qualify for a Mortgage?

You must be able to qualify for a conventional mortgage through a participating lender. This usually requires:

- 680 minimum credit scores, 700+ preferred credit score.
- Stable job history of 2+ years in the same line of work, 1+ year on the same job
- Self-employed borrowers qualify with average net income from last 2 years tax return
- Several positive credit references with a minimum of 12 month history. Ex. Car loan, student loan, credit card, etc.
- Liens, judgments and collections paid.
- 38% Debt-to-income ratio (See below)

Understanding Debt

Lenders want to see that your total debt (housing payment + car payment + student loans + credit cards + any other debts reporting on your credit report) is less than 38% of your total income.

To calculate, **multiple monthly gross income by 0.38**

For example: \$36,000 gross annual salary / 12 months = \$3,000

$\$3,000 \times 0.38 = \$1,140$

In this example, your **total** debt including the new house payment can be no more than \$1,140 per month.

Outstanding debt significantly reduces the amount of mortgage loan you can qualify for.

For example: a \$100 monthly credit card payment will decrease the loan you qualify for by over \$17,000. At the same time, paying off debts will help to increase to total loan amount you qualify for.

If you are unable to qualify for a mortgage at this time, Homestead can provide you resources to get you on the right track.



When I am Ready, How Do I Resell My Home through Homestead?

The ground lease states that, if the homeowner needs or wants to sell their home, the homeowner does so in accordance with the resale formula. This formula provides a financial return to the owner/seller and helps to ensure affordability for the next household. The resale formula provides a selling price of the homebuyer's original contribution or "initial purchase price" plus 1.5% compounding annually. Let's explain this.

It helps to see real numbers to better understand it. Here is an *example* of the resale formula:

- Your "initial purchase price" is **\$200,000**. This is what you paid for your home (your first mortgage and cash down payment).
- The resale formula increases the resale price of your home by **1.5%** each year.

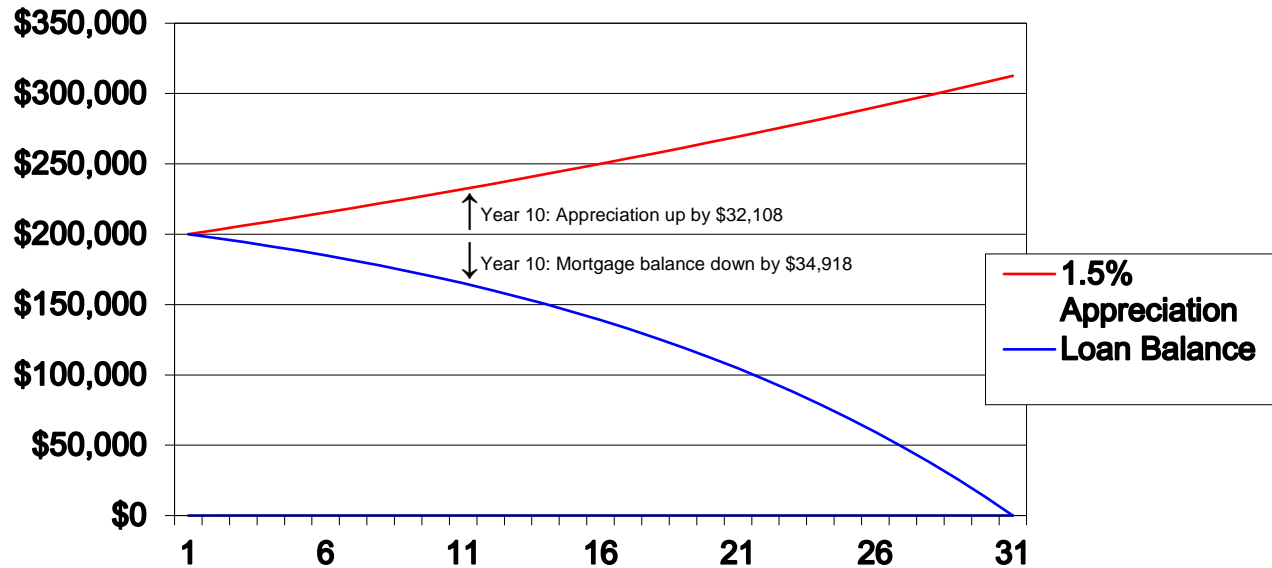
This table reflects the price a home would sell to the next Land Trust buyer with each subsequent year
Example assumes purchase price of \$200,000

Year 1	\$203,000		Year 11	\$235,589		Year 21	\$273,411
2	\$206,045		12	\$239,123		22	\$277,512
3	\$209,135		13	\$242,710		23	\$281,675
4	\$212,272		14	\$246,351		24	\$285,900
5	\$215,456		15	\$250,046		25	\$290,189
6	\$218,688		16	\$253,797		26	\$294,541
7	\$221,968		17	\$257,604		27	\$298,960
8	\$225,298		18	\$261,468		28	\$303,444
9	\$228,677		19	\$265,390		29	\$307,996
10	\$232,108		20	\$269,371		30	\$312,616



Continuing with this example, let's say you own your home for ten years but in the tenth year you decide to sell it. Your maximum formula resale price would be **\$221,968** (\$200,000 + 1.5% compounding annually from the chart above).

Your equity at the time of sale would be roughly **\$67,026**. This is made up of both the **1.5% formula increase (\$32,108)** and the amount of your loan that **you have paid off (\$34,918)** over those ten years. Equity amount does not account for your share of closing costs at the time of sale.



\$67,026 in Proceeds from Sale!



Pre-Purchase CHECKLIST

Step 1: QUALIFY. Find out if you are eligible by reviewing our requirements. If you have questions, reach out to us directly.

Step 2: APPLY. Fill out Homestead's online application. This should take about 10 minutes.

Step 3: REVIEW YOUR FINANCES. You will receive a follow up call or email from a Homestead staff member to review your application and get prepared.

Step 4: GET EDUCATED. Take a First Time Homebuyer's class. Weekly class listings are found on Homestead's website.

Step 5: RESOLVE CREDIT ISSUES. If you have any credit or finance issues, we can help you resolve your issues before you buy. There are resources on our website that will help you get started.

Step 6: DOCUMENTATION. Gather the basic items you will need to present to a mortgage lender. You need 3 years tax returns, 3 years W2s and 1099s, 2 most recent paystubs for all jobs, and 1 most recent bank statement for each account.

Step 7: PRE-APPROVAL. Understand what you can afford. Apply to a participating mortgage lender and turn in your documentation.

Step 8: FIND A HOME. Once you are pre-approved, reach back out to us. We will re-affirm that you qualify and see what we have available. If you see a home you like, we can arrange a showing.

Step 9: CLOSING PROCESS. Once you select a home, we will guide you through all the steps in the closing process. You will set a time to meet with our staff, sign the purchase and sales agreement, and complete the transaction.

Step 10: KEYS. After a 45 to 60 day closing process, you can move into your new home. Congratulations!

