



Community Land Trust Frequently Asked Questions

February 5, 2025

For additional information on CLTs and shared equity transactions, see [Selling Guide Section B5-5.3, Shared Equity Transactions](#).

Q1: What are CLTs?

Community land trusts (CLT) preserve long-term affordable housing by purchasing homes in their communities, then selling the homes to income-eligible buyers while retaining ownership of the land. The homeowners lease the land from the community land trust using a long-term ground lease with affordable monthly ground rents. The ground lease includes provisions that preserve long-term affordability, including restrictions on the future sales price of the home and income levels of future homeowners.

Q2: Are there resale restrictions for CLTs?

Yes, the CLT ground lease must include restrictions limiting future property buyers to those with specified income levels and limiting the maximum sales price of the property.

Q3: If the borrower is in default, does the CLT have the right of first refusal to purchase the property?

Yes, the model ground lease gives the CLT the right to purchase the subject property from the lender prior to foreclosure or acceptance of deed-in-lieu of foreclosure.

Q4: Who can be an eligible CLT provider?

The lender must confirm that the CLT is:

- a federal agency, state, county, or similar political subdivision of a state;
- any city, town, village, or borough of a state that
 - has a local government and that has been created by a special legislative act,
 - has been otherwise individually incorporated or chartered pursuant to state law, or
 - is recognized as such under the constitution or by the laws of the state in which it is located,
- a housing finance agency as defined in 24 C.F.R. §266.5;
- a nonprofit organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code;
- a regional Federal Home Loan Bank under one of its affordable housing programs;
- an employer where a borrower is an employee (see [B3-4.3-08, Employer Assistance](#));
- a lender, only in connection with an employer-guaranteed Community Seconds loan as part of its affordable housing program; or
- an Indian tribe on the most current list published by the Secretary of the Interior pursuant to 25 U.S.C. §5131.

NOTE: Legal entities that are owned exclusively by a nonprofit organization are also considered eligible shared equity providers. For example, an LLC wholly owned by a nonprofit organization is considered an eligible shared equity provider. Shared equity providers are not considered interested parties to the transaction.

Q5: What are the typical eligibility requirements for a borrower looking to purchase a CLT property?

Separate from Fannie Mae's financing guidelines, CLTs typically specify additional homeownership requirements. The borrower must satisfy any specific eligibility criteria established by the CLT. Typically, the criteria are based on the borrower's income compared to the area median income (AMI). For some programs, the borrower may also be required to be a first-time home buyer.



Q6: What CLT mortgages are eligible for sale to Fannie Mae?

We will purchase mortgages secured by one- and two-unit principal residence properties held in CLTs, including single-width, multi-width and MH Advantage® manufactured homes. Manufactured homes located in a condo or PUD project require Fannie Mae PERS approval. Under our policy, we will not purchase loans secured by units in a cooperative project, or three- or four-unit properties.

Q7: Are all Fannie Mae products eligible for this type of transaction?

CLT properties are eligible for most of our Selling Guide products, including HomeReady® and other community lending products. ARMs with a fixed period of less than five years are not eligible.

Q8: Are refinances allowed on CLT mortgages?

Yes, they are permitted up to the controlled price established by the CLT. The lender, however, must document that the CLT has approved the transaction and that it complies with their guidelines.

Q9: What are the requirements for a CLT ground lease and rider?

The CLT must use a ground lease that is based on one of the model documents developed by the National Community Land Trust Network or the Institute for Community Economics (ICE). More information about both ground leases is available on the Grounded Solutions Network website at <https://groundedsolutions.org/tools-for-success/resource-library/model-ground-leases>. Any additional terms added to the Model Ground Lease may not conflict with or adversely alter the rights of the consumer provided under the model form.

Q10: Can resale restrictions on CLT properties on loans delivered to Fannie Mae survive foreclosure?

Community Land Trust Ground Lease Rider stipulates that any resale restrictions must terminate at foreclosure.

Q11: Our CLT wants to make changes to the Ground Lease Rider. How can we do that?

As noted, our Selling Guide requires that Community Land Trust Ground Lease Rider be included in any transaction on CLT properties sold to Fannie Mae. Changes to that document are not permitted.

Q12: How are LTV and CLTV ratios calculated for CLTs?

Lenders must use the “Affordable LTV” calculation to determine LTV, CLTV and HCLTV ratios for loans with resale restrictions that terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or the recordation of a deed-in-lieu of foreclosure. For these transactions, the sales price is typically not a reliable indicator of market value for the property because the sales price does not include the subsidy from the shared equity provider. The appraised value is more indicative of the actual value of the property in the event of a foreclosure or acceptance of a deed-in-lieu of foreclosure (disregarding factors that may affect value after origination and prior to foreclosure).

The Affordable LTV calculation divides the loan amount by the appraised value of the property, rather than the lesser of the sales price or appraised value. For more information, see *Selling Guide* Section B5-5.3-03, Shared Equity Transactions: Eligibility, Underwriting and Collateral Requirements.

Q13: How are CLT properties valued per Fannie Mae guidelines?



In general, an appraiser should use a three-step process to develop an opinion of value for CLT properties. First, derive the fee simple value by using the sales comparison analysis approach to value. Second, using a market-derived capitalization rate, they should convert the income stream from the ground lease into a leased fee value. Finally, the leasehold value is determined by reducing the fee simple value by the leased fee value. Learn more in the [Appraising Community Land Trusts flyer](#).

Q14: Can Fannie Mae provide any additional information on how the capitalization rate might be developed?

To extract the capitalization rate, the appraiser should divide the annual ground rent for the properties subject to leasehold estates by the difference in the sales prices for the comparable sales of properties owned as fee simple estates and the comparable sales of properties subject to leasehold estates. This approach assumes an active real estate market that features sales of properties owned in fee simple and sale of properties subject to leasehold estates other than those held by a community land trust.

If there are no available comparable sales of properties subject to leasehold estates other than CLT properties, the appraiser may compare alternative low-risk investment rates, such as the rates for long-term bonds, high-yield savings accounts, or other investment options deemed appropriate by the appraiser. The capitalization rate selected should reflect a “riskless” (safe) rate.

Q15: What other appraisal considerations might lenders make when originating CLT loans?

In selecting an appraiser to provide an opinion of value for a leasehold property held by a CLT, the lender must make sure the appraiser is knowledgeable and experienced in the necessary appraisal concepts and techniques, including direct capitalization and market derivation of capitalization rates as referenced above.

The appraisal report must contain specific language stating that the appraisal is based on leasehold value, and it is being done on the hypothetical situation that resale restrictions do not exist. It is recommended that this language be displayed prominently on the appraisal report by the appraiser, so the lender does not mistakenly overlook it.

Q16: Must the lender deliver the ground lease and rider documents to Fannie Mae?

No. Neither the CLT ground lease nor Community Land Trust Ground Lease Rider is a required delivery document for Fannie Mae. They should be recorded and retained in the borrower’s loan file.

Q17: Regarding notification, can the ground lease (which is not signed by the lender) specifically impose a notification requirement on the lender?

Community Land Trust Ground Lease Rider modifies the terms of the ground lease; it provides that, “...the Specified Mortgagee shall have no obligation to give formal legal notice of the Event of Default to the Lessor.” Instead, the borrower (lessee) is obligated to provide all mortgage notices of default to the CLT.

Q18: What is the impact on loan delivery for loans on CLT properties?

- Lenders must represent and warrant that they can properly originate, track, and service loans on CLT properties.
- There are no adverse pricing implications for loans on CLT properties.
- To deliver these loans, lenders must enter Special Feature Code 054 into Fannie Mae Whole Loan or MBS Delivery systems.

Q19: How is mortgage insurance handled for CLT properties?

Lenders should follow standard practices for MI coverage. Often, the LTV on these loans is sometimes lower than 80 percent, so it’s likely that many transactions will not require mortgage insurance.



Q20: What are the title insurance implications for mortgages secured by CLT properties?

The borrower’s title insurance policy must expressly confirm—

- The recording of the CLT ground lease and ground lease rider.
- The mortgage is a first lien on the leasehold estate and improvements.
- There are no existing mortgages or other liens on the fee estate unless permitted under the ground lease rider.
- The ground lessor’s reversionary interest is subordinate to the CLT mortgage.
- There are no related CLT ground lease occupancy restrictions that “run with the land” and have been recorded apart from the ground lease, except as may be permitted under Community Land Trust Ground Lease Rider.

Q21: Can we use Desktop Underwriter® to underwrite CLT properties?

Yes. When using DU®, the lender must enter “Affordable LTV” in the Product Description field in the Additional Data section on the online loan application, which will result in DU calculating the LTV, CLTV, and HCLTV ratios based solely on the appraised value for purchase transactions (and not the lesser of the sales price or appraised value).

Q22: Are loans secured by properties subject to private transfer fee covenants eligible for sale to Fannie Mae?

Shared equity loans with note dates on or after July 1, 2023, that are secured by properties subject to private transfer fee covenants can be sold to Fannie Mae provided they meet the following conditions:

- The entity entitled to enforce the private transfer fee covenant must be an eligible Community Seconds® provider under Selling Guide B5-5.1-02, Community Seconds Loan Eligibility, and
- The instrument containing the private transfer fee covenant must:
 - include restrictions on the terms of transfer of the subject property limiting both the maximum income of the transferee(s) and the maximum permissible sales price that will apply for at least 30 years after recordation (“Income and Resale Price Restrictions”);
 - provide that the entity entitled to enforce the private transfer fee covenant has:
 - a preemptive option to purchase the subject property from the homeowner at resale; and
 - the power to review and approve all refinance loans and home equity lines of credit to be secured by the property.