



Ho'omaluhia Community Land Trust

A PAL Kaua'i Affordable Housing Program

Ho'omaluhia Community Land Trust
A Limited Liability Corporation owned by:
Neighborhood Housing Community Development Corporation
A 501(c)3 Non-Profit Organization
4270 Lighthouse Rd. STE I-3
Kilauea, Hawaii 96754
Office: (808) 738-6706

“ Keeping Local Families on Kaua'i in Perpetuity “

Mission Statement: *“ To secure and preserve a permanent supply of affordable housing for low to moderate income households in Kaua'i County*



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OUR MISSION

Ho'omaluhia Community Land Trust (HCLT) is a Single Member Limited Liability Corporation owned by Neighborhood Housing Community Development Corporation, a Federal Government and IRS recognized 501(c)3 tax-exempt nonprofit organization dba PAL Kaua'i.

Ho'omaluhia Community Land Trust is dedicated "To securing and preserving an ample supply of permanently affordable housing alternatives for low and moderate-income households in Kaua'i County." To that end, we offer to the public and the government which serves them the benefit of our knowledge, experience, and technical resources on community land trust issues.

OUR VALUES

We believe that the security of a decent home is a primary goal of all people and serves as a cornerstone of our democratic system of government, contributing to community responsibility, civic stability, family security, and well-being. We also believe that every individual should have the opportunity to live in safe and decent housing. These objectives can best be served by a healthy housing market in an economic environment that fosters an ample supply of affordable and accessible financing and an adequate supply of ownership and rental housing. Therefore, HCLT supports local, state, and federal housing programs that assist households in obtaining decent housing within their means.

We believe strongly in preserving the quality and affordability of housing for future low - to - moderate-income residents of the community. HCLT supports community benefits perpetually, allowing for long-term visioning and effective stewardship of community assets and resources.

We believe in being responsive to and supporting the needs for environmental conservation, economic stability, affordable housing, private property rights, and enhancement of the quality of life. In this respect, we believe that a broad-based, equitable approach that will contribute to our county and state's current and future vitality must be considered in developing land-use policies.

OUR PLEDGE

Ho'omaluhia Community Land Trust recognizes that Kaua'i County has a unique housing environment. The high cost of real estate and construction, discretionary County approval process, restrictions on housing supply, environmental concerns, demographic pressures, and deteriorating infrastructure will require new and creative approaches to house our people. We pledge to work with other organizations, community groups, private landowners, local governments, and our state and federal legislators to help develop workable solutions for a better Kaua'i and Hawai'i.



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I. Program Purpose:

With limited public funds and the enormous gap between the average income of Kaua'i's workforce and the cost of housing, we require new and creative approaches to meet the housing needs of Kaua'i's residents. A tool that an increasing number of United States Housing Organizations, Cities, and Counties are looking too is the Community Land Trust.

In the Hawaiian language, Maluhia describes peace, security, serenity, and safety, together with ho'o means "to cause peace or give peace, security."

The Ho'omaluhia Community Land Trust (HCLT) aims to provide opportunities for truly affordable homeownership to qualifying households that would otherwise not achieve ownership on the open market. By way of community land trust homeownership, we remove the volatility and uncertainty of rental housing, which enable the homeowner to thrive in other aspects of life.

To that end, HCLT hopes to instill peace of mind and stable, truly affordable homeownership for Kaua'i generations to come.

II. How the Community Land Trust Works:

A Community Land Trust acquires properties and legally separates ownership of the buildings (home(s)) from ownership of the land. Homebuyers in CLT programs purchase only the house and all the improvements and enter into a renewable, 99-year ground lease for the exclusive use of the land with the CLT. Removing the land cost from the transaction makes the home more affordable.

III. How does a CLT home remain affordable in perpetuity for future low or moderate income homebuyers?

In exchange for a reduced purchase price and affordable homeownership, when, a CLT homeowner decides to sell they agree to a predetermined sales price based on the resale formula (*see pg.11*) contained in the ground lease.

How the home can be sold or transferred:

- (1) Sold directly back to the trust,
- (2) Transferred to immediate homeowners immediate heirs
- (3) to an income-qualified buyer on the CLT program waitlist

The resale formula which is the cornerstone of the CLT model is designed to balance equity gain for the owner at the same time that it sets a resale price that is affordable for future buyers.

By limiting market appreciation, permanent affordability is ensured and initial subsidies invested in making the home affordable are spread across generations of low to moderate-income home buyers. Most importantly, this affordable housing option gives households that could otherwise only afford to rent the opportunity to take advantage of all of the benefits of home ownership — stability, security, tax benefits, and the opportunity to earn equity and appreciation in real estate that is not available through renting.

Excerpt from John Emmeus Davis on Origins & Evolutions of CLTs in the US 2010

“In the history of the community land trust, ownership came first. The CLT’s unique structure of ownership is far from the the way real estate is typically owned and managed in the United States today. Instead of seeing land as part of a shared human heritage that should be shepherded and used for the common good, land is typically treated as individual property, chopped up into parcels that are bought and sold to the highest bidder. It is deemed to be our god-given right to accumulate as much of it as we can. If we’re lucky and shrewd, we can beat everybody to prime parcels that are most likely to rise in value as a town expands, as a school is built, as a factory is sited, as a road or subway is extended. So rampant, so accepted, so deeply embedded in our national culture has been this notion of the individual’s inalienable right to gather to himself all the land he can grab, enriching himself in the process, that Thorstein Veblen, a nineteenth-century economist, suggested that speculation, not baseball, should be seen as our true national pastime. He dubbed land speculation the “Great American Game.”

Side by side with this ethic of speculation, however, there has persisted another tradition in the United States—less obvious, less dominant, but just as old. This is an ethic of stewardship, in which land is treated as a common heritage: encouraging ownership only by those who are willing to live on the land and to use the land, not accumulating more than they need; emphasizing right use and smart development; capturing socially created gains in the value of land for the common good. This practice and cultural belief of stewardship is precolonial, extending back to Native American and Native Hawaiian (Aloha ‘Āina, Mālama ‘Āina, Ahupua‘a) attitudes and the New England custom of the town commons. It also survived in the thinking of people like Thomas Paine, Thomas Jefferson, and Abraham Lincoln.

IV. Property Acquisition (including but not limited to):

- Purchasing homes with private donations
- Purchasing homes with a blend of private donations and financing (optimize funding)
- Federal, State, and County Grants

- Acquiring homes that are under the resale or buy-back restriction period with a government agency
- Tax-foreclosure Sales

V. Eligibility (Threshold Criteria)

To qualify for a HCLT Home the applicant must be:

- **Be at least 18 years of age (the minimum age to qualify for a mortgage in Hawai'i).**
- **Be a citizen of the USA or a registered alien**
- **Be a resident of Kaua'i County**
- **Income Eligibility:**
 - Maximum Income: To be considered for selection, a household must have an annual income which does not exceed 140% of the HUD median income of households of equal size residing in Kaua'i County published by the Kaua'i County Housing Agency.
 - Minimum Income: To be considered for selection, a household's monthly income, when multiplied by the appropriate debt-to-income ratio, must be sufficient to support the housing costs for the housing opportunity in question. In general, households that require a cosigner in order to obtain a mortgage will not be considered.
 - Affordability: (i.e., matching household income to housing cost). In general, the monthly cost of occupying a particular housing unit does not exceed 30% of monthly household income.
 - Assets - To be considered for selection, a review of a household's financial resources and circumstances should clearly indicate a limited ability to compete successfully in the conventional housing market in Kaua'i County.
- **Creditworthiness**: In all cases, a household must be able to demonstrate a sense of ownership of its financial obligations, and a history of responsible effort to meet them. The household must be "pre-approved" by an institutional mortgage lender to determine whether mortgage financing is likely to be obtained by the household based on the applicant's available cash resources and the known requirements of various mortgage programs for which the household may be eligible, and have completed the HCLT Application/Qualification process.
- **Completed the HCLT Application/qualification process** (See Application Process Pg.8)

VI. Secondary Eligibility Criteria

The following considerations will be given weight in evaluating applicants. The considerations presented here, not necessarily in order of priority or importance will be considered in those instances when there are two or more households expressing interest in a particular unit and who meet the Threshold Eligibility Criteria outlined above.

- **Residency:** Length of residency, residents of the community within which the home is located, those who work within or near the community in which the home is located, will be considered.
- **First-time homebuyers:** Defined as someone who has not owned a principal residence in the past three years; or a single parent who may have owned a home with a former spouse in the past three years but now no longer resides there.
 - Appropriate Size: (i.e. matching household size to unit size). In general, households consisting of the number of persons appropriate for the unit size will be given preference as follows:

Unit Size	Household Size	Unit Size	Household Size
Studio	1 Person	3 Bdrm	3-5 persons
1 Bdrm	1-2 persons	4 Bdrm	4-6 persons
2 Bdrm	1-3 persons	5 Bdrm	5-7 persons

- Application on File: Length of time which a household’s application for home ownership has been on file.
- Heirs: If “Heir property” is sold to the HCLT Community Land Trust, any heir of the former owner(s) that meets the Threshold Eligibility Criteria outlined above, and who has properly filled a CLT homeownership application will be given special consideration.
- **Community Involvement:** Applicant maintains organizational memberships and/or participates in and supports local culture, arts, agriculture and/or non-profits for environmental protection, faith-based or civic groups, youth and entrepreneurship mentoring in the areas of sports, career advancement and personal growth, etc.
- **Additional Criteria:** On a project-by-project basis, additional secondary criteria may be applied such as occupation, location of employment and/or employment with a specific employer.



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APPLICATION PROCESS

This process is not necessarily sequential in nature, however each component of the process is essential to ensure that each of the Ho'omaluhia Community Land Trust's prospective home buyer(s) is fully informed as to the fundamental details and atypical nature of the Community Land Trust's real estate transaction (i.e., involving a leasehold interest in the land and restrictions imbedded in the ground lease agreement on the resale of the improvements located on the leased premises.)

Steps to Homeownership with Ho'omaluhia CLT

1. Attend a Ho'omaluhia CLT introductory seminar.
2. Complete a Ho'omaluhia CLT Housing Application

Note: Filling out the application does not obligate you to work with our program, but it provides more details about your financial situation.

3. Attend/Complete a homebuyer education financial workshop – Being offered by two organizations. Online classes available.

You may complete a HUD approved Homebuyer Educational Financial workshop before you attend our next homebuyer seminar or before obtaining a pre-qualification or pre-approval letter.

- o *Hawaiian Community Assets:*

<https://www.vistashare.com/ot2/ssview/intake/cadff368d59e11eab26e0a5edaaa6806/>

- o *Hawaii Homeownership Center:*

<https://www.hihomeownership.org/homebuyer-education-schedules>

4. Meet with a loan officer and obtain a "Pre-approval Letter."

Work with any lender of your choice for this step, keep on mind they may not be an approved lender. The following lending institutions reviewed our ground lease and are willing to provide competitive loans secured by mortgages on leasehold real estate.

5. Meet with the HCLT Housing Coordinator for a review of the ground lease and resale formula and homebuyer selection policy in detail. This is the final step after completing the first 4 steps.

Please make sure your pre-qualification or pre-approval letter is still valid then contact our staff to schedule a time to meet.

APPLICATION REVIEW

Applicant is provided with an application form to complete and return to Ho'omaluhia Community Land Trust staff. Assistance with filling out application will be provided by staff on an as-needed basis. Application is reviewed by staff in comparison to established threshold and secondary criteria. Staff determines whether applicant is likely to qualify for currently available housing units (or for the general waiting list, as the case may be).

INTERVIEW

Staff and/or Selection Committee schedule and conduct personal interview with applicant household.

PRELIMINARY APPROVAL / DENIAL

Following mortgage "Pre-approval", reference checks and verifications, Selection Committee may preliminarily approve or deny an application. Qualified individuals/households will be so notified and placed on a waiting list to participate in the selection process for particular housing opportunities, as they become available. Applicants that do not meet application criteria will be so notified in writing.

SELECTION PROCESS

The selection process for each housing opportunity may vary depending on the number of eligible and qualified persons on the waiting list relative to the number of housing opportunities available at a particular time. When the number of applicants exceeds the number of units available and the application of the secondary selection criteria does not favor one applicant, a lottery will be conducted.

F. PURCHASE AND SALES CONTRACT / FORMAL MORTGAGE APPLICATION / ADVANCED ORIENTATION SESSION

The applicant and Ho'omaluhia CLT housing coordinator, and/or Seller, executes a purchase agreement. Applicant applies for mortgage financing. On a case by case basis assistance with completing application for mortgage financing may be available from the Ho'omaluhia CLT Staff or a Selection Committee member. A detailed review of the Ho'omaluhia CLT Land Lease and other legal documents associated with a particular transaction is scheduled with applicant.

G. MORTGAGE APPLICATION PROCESSING AND CLOSING

Applicant moves through the mortgage application and approval process.

H. INDEPENDENT LEGAL REVIEW

Applicant may retain, at applicant's expense, an attorney who reviews all the Ho'omaluhia CLT legal documents on behalf of applicant and who provides independent advice and counsel regarding the transaction.



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Ho'omaluhia CLT Resale Formula

Introduction

Principles as set forth in Ho'omaluhia Community Land Trust Program Policies and Procedures:

The Resale Formula. *Whenever its purpose is to preserve affordability, HCLT shall restrict the price that ground lessees may receive when they sell housing and other improvements located on the land that is leased to them by HCLT. A policy establishing such restrictions in the form of a "Resale Formula" shall be adopted by the Board of Directors, in accordance with the following principles:*

- a. To the extent possible, the formula shall allow the seller to receive a price based on the value that the seller has actually invested in the property being sold.*
- b. To the extent possible, the formula shall limit the price of the property to an amount that will be affordable for other low to moderate-income people at the time of the transfer of ownership.*

Executive Summary

Appraisal Based Formula

The approved formula uses a 2-step process to incorporate the above principles from the Ho'omaluhia Community Land Trust Program Policies & Procedures. The first part of the formula establishes a ratio based on the price the HCLT Homeowner pays for the property and the fair market value at the time of purchase.

This first step incorporates Policies & Procedure principle (a) noted above in the introduction by taking into account the amount of subsidy received which will vary based on the income category of the buyer established in the annual income limits established by the County of Kaua'i. The ratio gives a homeowner in the higher income brackets a higher return because they paid a higher purchase price and as a result received less of a subsidy at time of acquisition. The formula also contains a provision for recapture of investments in capital improvements that is in accordance with principle (a).

The second part of the formula establishes the Homeowners share of appreciation based upon the number of years of ownership ranging from 25% to 50%. Extensive research of Project Review Committee's in other CLTs around the country, show the greatest risk to policies & procedures principle (b) above - future affordability - came from resales that occurred after a short ownership period during a rapidly appreciating market. A longer period of ownership

reduced the risk for future affordability. The proposed formula gives the maximum 50% share of equity after 14 years of ownership.

EXAMPLE : FROM INTIAL PROPERTY ACQUISITION TO RESALE

A couple earns \$87,900 annually (120% Area Median Income). Ho'omaluhia CLT purchases a two bedroom home that is appraised, fee simple at \$1,000,000.

Based on the *Kauai County's Sales Limits on bedroom count* (Exhibit A) we offer it to the income qualified couple at \$500,000.

They decide to sell their home 10 years later (Shared appreciation percentage earned = 40%) and the Current Appraisal (CA) is now \$1,150,000. There were no capital improvements and no excess damage charge.

Step 1: Calculate the gain in appreciation

Current appraisal (CA) - Initial Appraisal (AI) = Gain in Appreciation

$$1,150,000 - 1,000,000 = \mathbf{\$150,000}$$

Step 2: Calculate subsidy ratio:

Initial Purchase Price / Initial Appraisal = Subsidy Ratio (Percentage of the purchase price HCLT subsidized)

$$\$500,000 / \$1,000,000 = \mathbf{50\%}$$

Step 3: Apply subsidy ratio to the gain in appreciation

Gain in appreciation x subsidy ratio

$$\$150,000 \times 50\% = \mathbf{\$75,000}$$

Step 4: Multiply gain in appreciation by the shared appreciation/equity percentage (determined by number of years in the home)

$$\$75,000 \times 40\% \text{ (Determined by the 10 yr ownership)} = \mathbf{\$30,000}$$

Homeowner's share of equity = \$30,000.00

EXAMPLE CONTINUED BELOW : HCLT HOMEOWNER PROCEEDS

HCLT HOMEOWNER PROCEEDS

Seller Proceeds:

Initial down payment of: \$20,000

Loan* Principle Paid: \$124,000 (approximately after 10 years)

Shared Appreciation Earned: \$30,000

Cash at closing \$174,000 (-closing/transfer)

(*Loan = \$480,000 at 3.25% interest, 30 year fixed mortgage, monthly payment of \$2,089)

EXAMPLE CONTINUED: HOW HCLT KEEPS THE HOME AFFORDABLE FOR THE NEXT FAMILY

A new income qualified applicant of HCLT can purchase the home above for the initial price the previous owners got it for at \$500,000 plus the previous owner's equity share of \$30,000 for a total **new purchase price of \$530,000** (+ Closing cost).

SHARED APPRECIATION PERCENTAGE ACCORDING TO YEARS IN THE HOME

<i>5 years or less from date of acquisition.....</i>	<i>SAF = 25%</i>
<i>More than 5 years but less than or equal to 6 years.....</i>	<i>SAF = 27.5%</i>
<i>More than 6 years but less than or equal to 7 years.....</i>	<i>SAF = 30%</i>
<i>More than 7 years but less than or equal to 8 years.....</i>	<i>SAF = 32.5%</i>
<i>More than 8 years but less than or equal to 9 years.....</i>	<i>SAF = 35%</i>
<i>More than 9 years but less than or equal to 10 years.....</i>	<i>SAF = 37.5%</i>
<i>More than 10 years but less than or equal to 11 years.....</i>	<i>SAF= 40%</i>
<i>More than 11 years but less than or equal to 12 years.....</i>	<i>SAF= 42.5%</i>
<i>More than 12 years but less than or equal to 13 years.....</i>	<i>SAF= 45%</i>
<i>More than 13 years but less than or equal to 14 years.....</i>	<i>SAF= 47.5%</i>
<i>More than years 14 years.....</i>	<i>SAF= 47.5%</i>

25% - 50% in increments of 2.5% each year after 5 years to 14+ years of ownership

**COUNTY OF KAUAI
2021 ANNUAL INCOME LIMITS**

Effective: 6/1/2021
Kauai Median Household Income: \$93,400

Household Size:	1	2	3	4	5	6	7	8
HUD Income Limits*:								
30% Limits (Extremely Low)	21,400	24,450	27,500	30,550	33,000	35,450	37,900	40,350
50% Limits (Very Low)	35,700	40,800	45,900	50,950	55,050	59,150	63,200	67,300
60% Limits	42,900	49,000	55,100	61,150	66,100	71,000	75,850	80,800
80% Limits (Low)	57,100	65,250	73,400	81,550	88,100	94,600	101,150	107,650
Workforce Housing Income Limits*:								
100% Limits	65,400	74,750	84,100	93,400	100,900	108,350	115,850	123,300
120% Limits	78,500	89,700	100,900	112,100	121,100	130,050	139,050	148,000
140% Limits	91,600	104,650	117,750	130,800	141,300	151,750	162,200	172,700
Gap Group Income Limits*:								
160% Limits	104,600	119,550	134,500	149,450	161,400	173,350	185,300	197,250
180% Limits	117,700	134,500	151,350	168,150	181,600	195,050	208,500	221,950

*Annual income limits are rounded upwards to the nearest \$50