

Albany Community Land Trust
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Lease-Purchase Policies and Practices

The Albany Community Land Trust (ACLT) uses lease-purchase arrangements to assist low-income families who face modest obstacles in obtaining affordable mortgage financing in buying an ACLT home. The lease-purchase arrangement allows a potential homebuyer to reside in an ACLT home as a tenant while completing the financial arrangements to obtain a mortgage to purchase that home. The ACLT Board of Directors must approve all potential homebuyers interested in buying an ACLT house, including lease-purchase tenancies.

Whether the ACLT will use a lease-purchase arrangement as well as the length of a lease-purchase tenancy in a particular situation depends upon the requirements of ACLT funding sources. A second major factor is the progress that a potential homebuyer is making towards obtaining an affordable mortgage. A third major factor is the potential homebuyer's eligibility for government subsidies used in the rehabilitation of the ACLT home for sale. Lease-purchase tenancies are intended to be for less than one year, but may be extended for a longer period or converted to conventional, depending upon individual circumstances.

Potential homebuyers interested in participating in a lease-purchase arrangement in an ACLT home must complete the following steps:

- Complete a written ACLT Homeowner/Leaseholder application;
- Visit the ACLT house for sale at least twice (ACLT recommends potential homebuyers compare ACLT homes for sale with other homes for sale in the area);
- Complete an interview with ACLT staff (including any follow-up activity);
- Complete an interview with an Affordable Housing Partnership financial counselor (including any follow-up activity);
- Complete an interview with ACLT Resident Selection Committee.

The ACLT Board of Directors will consider a lease-purchase arrangement with a potential homebuyer based upon positive recommendations from ACLT staff, an Affordable Housing Partnership financial counselor, and the ACLT Resident Selection Committee. The ACLT Board will determine the terms of a lease-purchase tenancy (monthly rent, length of tenancy, participation in homeowner training programs and ongoing financial counseling) based on these recommendations and ACLT's financial obligations with its rental portfolio.

ACLT is responsible for major repairs, but lease-purchase tenants are expected to learn and apply home maintenance skills during their tenancy, including participation in training sessions on home repairs when feasible. Unless otherwise stipulated ACLT lease-purchase tenants are **not** "buying a home with their rent."

Lease-Purchase

Pros & Cons

(A Short List)

Pro

Homebuyer learns about the building s/he is buying & knows the building will not be sold to someone else while s/he is engaged in pre-purchase financial preparation

Con

The CLT has all the obligations & liabilities of being a landlord, and clarifying who is responsible for repairs/capital improvements or municipal fines for trash mishandling or excessive water consumption can be a source of friction

Pro

Lease-Purchase arrangements generally serve potential homebuyers who are subprime mortgage candidates or who are reluctant to consider homeownership because of past credit or budgeting problems

Con

Some potential homebuyers are unwilling or unable to change poor budgeting or credit management patterns (including 'excessive consumerism') and the lease-purchase arrangement becomes an 'enabling' device subject to manipulation

Pro

CLT will have rental income during lease-purchase rather to offset carrying costs during what may be an extended marketing time

Con

A Lease-Purchase rent needs to cover carrying costs plus anticipated maintenance & unanticipated administrative expenses, but the longer the lease-purchase period is extended the more likely these expenses will increase

Pro

A Lease-Purchase program helps meet community need, enables a CLT to serve a broader constituency, demonstrates creativity to some funding sources, and brings in operating income in between development projects

Con

Lease-Purchase buildings that do not sell quickly become a management & maintenance burden, tenant turnovers (including damages & eviction expenses) may cause financial losses, managing a rental portfolio long term may deplete unreplaceable financial reserves and require different staff skills

Conclusion: Lease-Purchase programs do serve an underserved and vulnerable part of the market, but they need to be constantly fine-tuned & adjusted to keep problems from getting out of hand, correct procedures that do not always work, and to adjust to local market conditions. Simplistic 'cookie-cutter' models are prone to failure.

The following is a summary outline of the ACLT experience with lease-purchase tenancies in the 55 properties (with 72 units) that the ACLT has acquired and redeveloped since 1989. [Please note that the numbers do not seem to add up because the ACLT re-acquired several homes that had been sold to homeowners (who defaulted on their mortgages) and re-developed again.]

- 31 buildings sold to homeowners (90% were lease-purchases)
- 12 current lease-purchase rentals (several for more than 4 years [including one for 12 years], only 1 or 2 are expected to close in the next year, 5-6 will probably move or simply remain as long-term tenants)
- 6 properties with 14 units that were originally lease-purchase tenancies over 10 years ago but are now low-income rentals with extremely unlikely prospects of becoming lease-purchase situations in the foreseeable future
- 10 buildings in development (4 are for sale *without* lease-purchase options, 3 are committed to lease-purchase tenants, 3 are available for lease-purchase tenants)

The ACLT obviously has had a very uneven experience with its lease-purchase program, but the community benefits of both ACLT's lease-purchase and conventional rentals are undeniable. When the ACLT was initially created our original plan was to acquire properties for rehab and resale to low-income homebuyers ('plan A'). The lease-purchase program was developed very quickly as 'plan B' when the aspiring homebuyers the ACLT selected needed time to obtain a mortgage.

Over time the ACLT has made periodic adjustments in our approach to both 'plan A' & 'plan B,' including property selection, marketing, pricing, screening of potential homebuyers/tenants, pre-purchase counseling process, use of skilled staff from partner organizations, etc. Different techniques work for a while or with some people, but then don't work in other situations or with other people. As a result managing these properties as conventional low-income rentals where the lease-purchases repeatedly did not work out became 'plan C.'

The a logical progression in this process, however, has been accompanied by a good deal of frustration in trying to maintain a balance between new development and the management and maintenance of a growing rental portfolio. This strain is particularly stressful because of ACLT's limited staff and financial resources; thus the ACLT is constantly re-evaluating whether to continue fine-tuning or to drastically change our approach entirely.