

Land Bank Issued Financing

- Land Bank financing will be a contract between the Benzie County Land Bank and the buyer of real property in which the Land Bank provides the financing to buy the property for an agreed-upon purchase price and the buyer repays the loan in installments. In this arrangement, the Land Bank retains the legal title to the property, while permitting the buyer to take possession of it for most purposes other than legal ownership. The sale price will be paid in periodic installments, often with a balloon payment at the end to make the time-length of payments shorter than a corresponding fully amortized loan without a final balloon payment. When the full purchase price has been paid, including any interest determined by policy or affordability, the Land Bank will then convey legal title to the property to the buyer. The initial downpayment amount shall be an amount equal to (i) 10% of the sales price (ii) all expenditures of the Land Bank (whether made directly by the Land Bank or through payments to a third party contractor) in connection with the subject property that were incurred subsequent to the date of conveyance or (iii) a minimum of \$2,000. The legal status of this form of financing may vary from region to region. As well, funding used in the acquisition and redevelopment of subject properties may not allow for Land Bank financed sales.

Installment payments

The installment payments of the purchase price will be similar to mortgage payments in amount and effect. The amount is often determined according to a mortgage amortization schedule. In effect, each installment payment is partially payment of the purchase price and partially payment of interest on the unpaid purchase price. This is similar to mortgage payments which are part repayment of the principal amount of the mortgage loan and part interest. As the buyer pays off more of the principal of the loan, his (her) equitable title or interest in the property will increase. For example, if a buyer pays a \$2,000 down payment and loans \$8,000 for a \$10,000 parcel of land, and pays off in installments another \$4,000 of this loan (not including interest), the buyer has \$6,000 of equity in the land or 60% of the equitable title, but the Land Bank holds legal title to the land as recorded in documentation (deeds) in a government recorder's office until the loan is completely paid off. However, if the buyer defaults on installment payments, the Land Bank may consider the failure to timely pay installments a breach of contract and the land equity may be forfeited to the Land Bank, depending on the contract provisions.

The following policies shall establish the instances when the Land Bank will consider selling its property through alternative financing (*i.e. Land Contract*) rather than cash sale. All exceptions to this policy shall be decided by governing body of the Land Bank.

- Land Bank financing may be used when the property being sold is as an affordable owner-occupied-single residential structure. The contract terms (down-payment amount, interest rate, amortization schedule and length of contract) will be determined by the governing body of the Land Bank.
- The contract terms will include a down payment of an amount equal to (i) 10% of the sales price (ii) all expenditures of the Land Bank (whether made directly by the Land Bank or through payments to a third party contractor) in connection with the subject property that were incurred subsequent to the date of conveyance or (iii) a minimum of \$2,000 *with interest rate charged at 2% under the New York Prime. A minimum interest rate of 4% will be charged,* and the length of land contract will be up to five (5) years with the option to renegotiate.
- Land Bank financing may be used as a means to enforce a development agreement. The contract shall be based upon consideration equal to the fair market value of the property. Properties with an SEV greater than \$50,000 fair market value shall be determined by an appraisal approved by the Land Bank that is no older than 365 days from the date of property application. The contract will have, at a minimum, a length equal to or greater than the development schedule sited in the development agreement.
- All terms of the contact may be renegotiated between the Land Bank and the buyer based on approvals from the governing body of the Land Bank.

APPROVED