

# **Lender Guide**



# **Homeownership Program**

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## Welcome!

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Dear Mortgage Lender,

We are pleased you are working with a buyer or owner in City of Boulder's Affordable Homeownership program. This is a great community in which to live, and Boulder has taken steps to ensure an inventory of permanently affordable homes and opportunities for ownership in our community.

The City of Boulder makes homes affordable through regulations and subsidies. As such, there are a number of responsibilities to which program buyers and owners commit. This manual was developed to provide a program overview to lenders, while giving specifics about the city's requirements and timeframes for approving and drafting documents for closing.

The City of Boulder requires that mortgages on permanently affordable homes meet several requirements. The intent of the requirements is to reduce the risk of default and foreclosure. In the event of a foreclosure, the affordability restrictions terminate. As such intervention typically costs several thousand dollars, the city has instituted a number of precautions. For example, all buyers are required to attend homebuyer training and make a significant investment in the home. The mortgage requirements have been developed with this in mind while attempting to preserve adequate mortgage options for buyers.

City staff is here to assist if you have questions after reviewing this information. Please do not hesitate to contact via any of the methods below.

Sincerely,

The Homeownership Program Team  
City of Boulder  
Division of Housing

City of Boulder Homeownership Programs  
Physical Address: 1300 Canyon Boulevard, Boulder 80302  
Mailing Address: P.O. Box 791 Boulder, CO 80306  
303-441-3157, ext. 2  
homeownership@bouldercolorado.gov  
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## City of Boulder Affordable Covenant Summary

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All Homeworks Permanently Affordable homes come with affordable covenants that ensure the homes remain affordable into the future. The buyer must accept all terms of the covenant to be eligible to purchase the home.

### Covenant Key Points

- The maximum income of a new buyer will be established in advance of sale or re-sale, and the home may not be sold to a buyer that exceeds the maximum income limit.
- The home has a Maximum Resale Price Limit that includes limiting appreciation.
- Buyers are required to maintain their affordable home in a manner that protects the health, safety and livability for the home's future owners.
- Eligible capital improvements for which a homeowner can receive credit are limited in amount and type, and must be pre-approved by the city to receive credit.
- The ability to refinance is limited to 93% of the Maximum Resale Price Limit. The city must be contacted prior to arranging refinancing with a lender to ensure this limit is not exceeded.
- The home must be occupied by the owner unless the city has approved a rental arrangement.
- The home cannot be rented in its entirety during the first five years of ownership.
- After five years of ownership, the home may be rented for one year out of every seven. The city needs to be contacted before this is done.
- A bedroom in the home may be rented at any time of owner occupancy, providing no city codes are violated.

*A full version of the Covenant is available by request. For a copy please email us at [homeownership@bouldercolorado.gov](mailto:homeownership@bouldercolorado.gov).*



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## City of Boulder Mortgage Policy

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Loans used to purchase or refinance homes in the program must meet the guidelines of the mortgage policy. The current policy can be found on our website. Please contact us if you have question about the policy.

### Appraisal

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Appraisers often request guidance when appraising permanently affordable homes. As the city's resale restrictions terminate upon foreclosure, the security value of the home is its unrestricted market value. Appraisers should use standard market comparable properties. Fannie Mae has issued appraisal guidelines to this effect. See "Ann. 06-03: Properties Subject to Resale Restrictions or Located on Land Owned by Community Land Trusts (03/22/06)." A copy of these guidelines is on our website.

### Purchase Loans

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The city's homeownership programs have been designed to facilitate standard mortgage financing, including FHA and Fannie Mae.

One of the requirements in applying for the city's program is that applicants submit a preapproval letter and the typed loan application (Form 1003) with their city application. We do not accept prequalification letters as we want to ensure that those certified for our program have the ability to purchase a home, as evidenced by their submitting a full loan application to their lender.

Certified buyers entering into a purchase contract will be required to provide documents to the city before closing. If working with a buyer, expect them to ask for the following documents to be sent to their specific staff contact:

- 1) Loan Estimate or Truth-In-Lending Statement
- 2) Loan Estimate or Good Faith Estimate
- 3) Most recent loan application (Form 1003)
- 4) Title commitment documents

Once these documents are received we will review them for conformity with our mortgage policy. We will use the data from the loan application for our final income and debt-to-income ratio certifications. Finally, the information found in the Loan Estimate, Truth-in-Lending statement, Good Faith Estimate, and loan application will be used to determine whether a Solution Grant is available to the buyer.



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## Down Payment Assistance Programs

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### **Solution Grant**

The Solution Grant is available to low-moderate income buyers in the city's Homeworks Permanently Affordable program. It is only available for purchasers of Homeworks Permanently Affordable homes or homes located within Boulder city limits that are part of the Thistle Communities homeownership program. The grant is "gap funding"—that is, it seeks to bridge a gap between the funds that a buyer needs to close (down payment and closing costs), and funds that the buyer actually possesses.

#### **Determining Initial Eligibility**

While potential eligibility for a grant can be determined at the time of initial certification, final eligibility is not guaranteed, nor can a specific amount of funds be committed. This is for three reasons:

- a) The program participant has not yet gone under contract, so the exact amount of down payment and closing costs required is unknown;
- b) It is expected that program participants will be proactive in saving money for their down payment and closing costs during the time that they are shopping for a home. In most situations the city would expect to see an increase in assets between initial program certification, and going under contract;
- c) Funds are limited annually, so there is no guarantee that funds will be available at the time a program participant is ready to close.

#### **Determining Final Eligibility**

In order to give final approval to the purchase, the city requires all of the following documents to determine the buyer's costs to close and final eligibility:

1. Sale contract for subject property
2. Updated loan application (1003) from the lender that reflects:
  - a. Section I: specific loan information for the purchase;
  - b. Section II: updated down payment source information (if applicable);
  - c. Section V: updated income calculations (if applicable), and Monthly Housing Expense information specific to the purchase;
  - d. Section VI: updated asset and liability information based on a post-contract credit analysis;
  - e. Section VII: Up-to-date details of the transaction with credits and costs
3. Loan Estimate or Good Faith Estimated dated the contract date or later, with updated loan information
4. Loan Estimate or Truth-In-Lending Statement dated the contract date or later, with updated loan information
5. Title Commitment referencing all parties to the transaction, and policy cost
6. Current bank and other assets statements to determine available buyer funds
7. Additional items requested by the city to determine grant eligibility if eligibility questions remain.



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Once the above documents are received, the city will analyze current income, debt, and assets to determine eligibility for the Solution Grant. If income or assets have increased above the program limits a grant will not be provided.

The Solution Grant will be awarded based on the actual gap reflected in the documentation. The following are expected to be contributed by the buyer to their closing: cash in bank accounts, retirement funds that exceed the city's exemption amount, assets that can be liquidated including mutual funds, trust funds, stocks, bonds, cash value of life insurance policy (not death benefit policies), estimated proceeds from sale of another home, gift money, Individual Development Accounts (IDAs), and other grants to be received.

If an analysis of closing costs vs. available assets demonstrates that a funding gap exists, the city will make a Solution Grant available to the buyer in exchange for an adjusted purchase price after closing (purchase amount - grant amount). Funds will only be available if they have not already been depleted for the year.

### **Determining the Amount of the Grant**

The grant will never exceed 5% of the home's sale price. The funds are not intended to help a buyer avoid mortgage insurance, buy points, pay private mortgage insurance (PMI) in advance, pay down principal, or provide any other buy-down assistance that causes the interest rate to be lower in exchange for costs paid at closing. In most cases, the grant is only available when a lender is requiring a down payment of 5% or less.

City staff will determine whether closing costs seem reasonable for the transaction, and may require additional detail or verification of closing costs listed by the lender.

### **Buyer Requirements**

**Savings** - Buyers should show a good-faith effort to save funds for their home purchase from the time they were initially certified for the program. It is expected in most cases a documented increase in assets should be seen from certification through contract. Asset reductions may require documentation, and may result in a grant not being available to the buyer.

**Upgrades** - For new construction, buyers cannot purchase upgrades and receive a grant. New homes are constructed as fully livable. Personal and gift funds should be saved for closing costs – not invested in upgrades. Information regarding upgrades selected will be sent to the city by the developer for all buyers, and if upgrades exist then buyers will not receive grant funds.

### **Lender Requirements**

Lenders need to send the documents listed in the "Determining Final Eligibility" section above at least 2 weeks before closing. This will allow the city time to analyze grant eligibility, obtain necessary internal approval, and arrange for funds to be delivered to the closing.

Grant funds should not be considered "guaranteed" until official award notification is provided by the city to the buyer and the lender. This generally happens 10 days after lender documents are received.



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All funds will be wired directly to the Title Company in time for closing. If closing costs change, then it is expected that any amount that is over granted will be returned to the city by the title company. **Excess funds must be returned, and are not to be used to cover any part of the transaction not previously agreed to by the city.** It is not possible for us to make changes to the grant request for a larger amount if the transaction is within one week of closing.

### **The Shared Appreciation Loan (House to Home Ownership - H2O)**

The Shared Appreciation Loan program is a deferred loan to help those with minimal funds saved for down payment. This is a second loan on a market rate property that allows a buyer to bring more money to the closing. This results in a lower monthly payment. Repayment is not made until the home is sold or 15 years, whichever comes first. The maximum loan amount for this program is \$50,000 or 15% of the home's value—whichever is less.

At 15 years, or ownership transfer, the loan is due in its entirety plus a percentage of appreciation.

#### **Examples**

<b>Purchase Price</b>	<b>H2O Loan Amount</b>	<b>H2O Loan %</b>	<b>Appreciation</b>	<b>Amount Due at 15 yr/Transfer</b>
\$200,000	\$20,000	10%	\$80,000	\$28,000 (\$20,000 + \$8,000)
\$200,000	\$10,000	5%	\$80,000	\$14,000 (\$10,000 + \$4,000)
\$250,000	\$25,000	10%	\$50,000	\$30,000 (\$25,000 + \$5,000)
\$250,000	\$25,000	10%	\$110,000	\$36,000 (\$25,000 + \$11,000)

If the home is sold or refinance within two years, only the amount borrowed needs to be repaid.

This program has no resale restriction. The home may be sold at market-rate. All Shared Appreciation Loan participants are required to pay a \$150 fee at closing.

In addition to the other city program eligibility requirements, this program has the following additional requirements:

1. Buyer must be a first-time homebuyer (not owned a home within 3 years, unless divorced during that time).
2. Buyer must work within the city limits of Boulder.
3. Home must be a market rate home in the City of Boulder (homes in the Permanently Affordable program are not eligible).

The amount of the loan will be determined based on the contract price of the home and the amount of assets that the buyer already has available. The loan helps to bridge the gap between available assets and costs when a buyer does not have enough funding to purchase a market rate home in Boulder.



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## **Metro Mortgage Assistance Plus Program Grant (MMAP)**

The MMAP Program is administered by the City of Denver. The City of Boulder is a participating jurisdiction. Lenders that have completed the required training are eligible to participate. MMAP makes available to income eligible buyer a non-repayable grant for up to 4% of the home's purchase price, with 1% of the total granted covering origination costs, and the rest is applied to down payment and closing costs.

This grant can be used in conjunction with our Solution Grant but not the Shared Appreciation Loan (H2O) since the Shared Appreciation loan does not permit FHA or VA products. MMAP Program funds will be applied before determining the city's grant amount. It is the lender's responsibility to certify applicant eligibility for this the MMAP grant, reserve funds, and meet the reporting requirements. For more information visit [www.denvergov.org](http://www.denvergov.org) and search for "Metro Mortgage Assistance Plus."

## **Personal Investment Enterprise (PIE)**

The Boulder County PIE program gives qualified applicants a \$4 match for every dollar they save for down payment up to \$1000 (\$4000 match). Funds need to be saved in a special account and require a six-month saving period. More details can be found at [www.bouldercountypie.org](http://www.bouldercountypie.org).



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## Down Payment Assistance Programs Overview Chart

	<b>Solution Grant</b>	<b>H2O Loan</b>	<b>MMAP Program Grant</b>
<b>Administered</b>	City of Boulder	City of Boulder	City of Denver
<b>Amount Available</b>	Up to 5% of home's purchase price	Up to 15% of home's purchase price (a maximum of \$50,000)	4% of home's purchase price
<b>2015 Household Income Limit</b>	Number in Household 1: \$53,040 3: \$68,200 2: \$60,660 4: \$75,740	Number in Household 1: \$55,680 3: \$71,600 2: \$63,680 4: \$79,520	Number in Household 1-2: \$95,880 3 or more: \$111,860
<b>Maximum DTI</b>	42%	42%	45%
<b>Household Financial Contribution to Transaction</b>	Minimum of \$2,000; buyers will be required to contribute more assets if they have funds in excess of 3 months PITI and HOA reserves	Minimum of \$2,000; buyers will be required to contribute more assets if they have funds in excess of 3 months PITI and HOA reserves	0.5% of total mortgage
<b>Homebuyer Education Requirement</b>	Yes, any HUD-approved housing counseling agency (CHFA-approved homebuyer education satisfies requirement)	Yes, any HUD-approved housing counseling agency (CHFA-approved homebuyer education satisfies requirement)	Yes, any HUD-approved housing counseling agency (CHFA-approved homebuyer education satisfies requirement)
<b>Repayment Requirements</b>	None, but the grant is invested in the property so the maximum resale value of home is reduced by the grant amount after closing for the purposes of calculating future appreciation and keeping the home permanently affordable.	Yes, balloon payment due at 15 years, or upon transfer. Repayment amount is original loan + a percentage of the home's appreciation at the time of pay off.	No
<b>Grant Commitment</b>	Upon verification that applicant has completed all program requirements; and receipt and review of final closing costs as documented on the final LE or TIL, LE or GFE, Loan Application, Title Commitment documents	Upon verification that applicant has completed all program requirements; and receipt and review of final closing costs as documented on the final LE or TIL, LE or GFE, Loan Application, Title Commitment documents	Pre-reserved by lender upon verification of applicant requirements and final closing costs information
<b>For More Information Contact</b>	City of Boulder Division of Housing, Affordable Homeownership Program: 303-441-3157, ext 2; homeownership@bouldercolorado.gov	City of Boulder Division of Housing, Affordable Homeownership Program: 303-441-3157, ext 2; homeownership@bouldercolorado.gov	<a href="http://www.denvergov.org">www.denvergov.org</a> and search for "Metro Mortgage Assistance Plus."



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## Setting the Maximum Resale Price of Permanently Affordable Homes

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The resale formula that sets the maximum price strikes a balance between keeping the price affordable and allowing owners to receive a return on their investment in the property. This formula is not tied to the performance of the real estate market. Below is how the city calculates maximum resale values for a majority of the homes in the program. Owners should consult their individual covenant for the specific formula.

A. Start with the original purchase price

B. Subtract the amount of any Solution Grant monies received. This is now considered the purchase price.

C. Each year multiply the purchase price by the percentage change in the most recent Consumer Price Index or Area Median Income (whichever is less) to determine the annual appreciation credit. The maximum increase for any given year is 3.5 percent, while the minimum increase is 1.0 percent.

D. Each year add the appreciation credit to the purchase price.

E. Add the cost of approved Capital Improvements up to the time of listing the home for sale. The owner may make improvements to the home at any time, but only pre-approved and eligible capital improvements will result in a higher selling price (see the Homeowner Manual at [www.boulderaffordablehomes.com](http://www.boulderaffordablehomes.com) for the most updated eligible capital improvement list).

F. Deduct the amount of any excessive damage discovered during inspection that the owner is unwilling to repair.

G. Add the amount of the sale commission paid by the Owner, not to exceed the maximum allowable sales commission published by the City Manager on an annual basis.

The owner will not be required to sell below the maximum resale price unless the unit appraises for a lesser value. Market conditions may result in a seller deciding to sell for less than the maximum price.

### Example

Home Purchase Price:	\$210,000
Solution Grant Received:	<u>-\$8,000</u>
Starting Price for Resale:	\$202,000

Appreciation Year One (2.3%):	\$4,646	(\$202,000 x 2.3%)
New Max Resale Price:	\$206,646	(\$202,000 + \$4,646)

Appreciation Year Two (1.8%):	\$3,636	(\$202,000 x 1.8%)
Capital Improvement Credit:	\$3,800	
New Max Resale Price:	\$214,082	(\$206,646 + \$3,636 + \$3,800)



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## Refinancing

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Most owners may refinance a mortgage used to purchase their home if the refinance amount does not exceed 93 percent of the current resale value of the home (90 in the case of a Home Equity Line of Credit – HELOC). The City of Boulder must approve the loan to confirm it meets these requirements and the new loan terms meet the current mortgage policy.

The city has a \$10 deed recorded against the property. This loan will be subordinated to the new financing, as is required by most lenders, if the terms listed above are met.

Owners should contact us when they are ready to refinance their home so we can provide the owners with a letter containing their home's current value, details on determining their maximum refinance amount, and the required documents needed for the city to subordinate its \$10 deed to the new loan.

Once we receive the required documents from the lender, we require a minimum of five business days to analyze the loan, process our subordination, and send documentation to Title for closing. If terms or amounts change then we must receive new versions of the loan documents.



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## *Recommended Resource for Foreclosure Prevention*

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If an owner is behind in mortgage or Home Owners Association (HOA) payments, or have been served a notice of foreclosure they are required to notify the city. For people in this situation help is available. The Boulder County Housing Authority (BCHA) is dedicated to helping homeowners at risk of foreclosure. A few important points:

- Early intervention is key to helping homeowners on the edge stay in their homes.
- Counseling is not just for borrowers already in foreclosure but also for all who have missed a payment or who think they may miss a payment.
- If an owner is in jeopardy of foreclosure, or know someone who is, contact the Boulder County BCHA Housing Counseling Program hotline at **720-564-2279**.

BCHA's housing counselors are neutral parties that act as an information resource for borrowers and as facilitators between the borrowers and lenders. The BCHA's Housing Counseling Program is approved by the U.S. Department of Housing and Urban Development to conduct foreclosure prevention counseling.

For assistance, visit the BCHA's Foreclosure Prevention website at: <http://www.bouldercounty.org/family/housing/pages/hcforeclosure.aspx>, or call them at 720-564-2279

Please keep in mind that non-payment of HOA dues can result in foreclosure. The city is unable to assist owners with HOA matters as the HOA is made up of members of those living in the HOA. The Homeownership Program has no jurisdiction or vote in community matters. Active participation in an HOA will help to ensure a good homeownership experience.



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## Frequently Asked Questions

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### Can an owner rent their home?

Generally, an owner must live in their home for at least five years before they are eligible to rent. An owner may generally rent for a period or periods of time totaling 12 months out of every seven years of ownership. If an owner intends to rent they should contact us for requirements.

In order to rent a home, an owner may need a Rental License from the City of Boulder. Please be aware that some loans may restrict an owner's ability to rent their home. Owners must also abide by any HOA rental requirements.

### What happens in the event of foreclosure?

The city's resale restrictions terminate upon foreclosure. The security value of the home is its unrestricted market value.

### How should an appraiser go about valuing the home?

Appraisers should use standard market comparable properties. Fannie Mae has issued appraisal guidelines to this effect: "In cases where the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or upon recordation of a deed-in-lieu of foreclosure, the appraisal should reflect the market value of the property without resale restrictions. The lender must ensure that the appraiser is aware of the resale restrictions and should advise the appraiser that he or she must include the following statement in the appraisal report: "This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure." See Fannie Mae Announcement 06-03: Properties Subject to Resale Restrictions or Located on Land Owned by Community Land Trusts (03/22/06) for further details.

### Why does the City of Boulder hold a \$10 note and deed?

Most of the properties sold through the program have been deemed permanently affordable. In order to be notified of any lending or foreclosure transactions related to the property and to continue to secure the community's interest in the property, the city records a \$10 note and deed.

### How can I get the \$10 note and deed released?

We will not permanently release the note and deed before a sale, but we will subordinate it to the first mortgage.



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