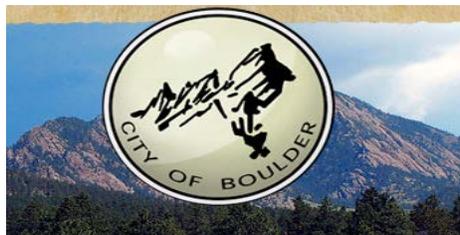


City of Boulder Homeownership Programs

Lender Manual 2013



In accordance with the provisions of the Equal Opportunity Act and the Boulder County Homeownership Programs' policies, there will be no discrimination against an applicant for these benefits on the basis of age, source of income, sex, race, marital status, sexual orientation, national origin, religion or handicap.

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Welcome!

Dear Mortgage Lender,

We are so pleased that 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 the citizens of Boulder have 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 lender has the right to remove the affordability restrictions if the city does not intervene. 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 don't 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

Homes that are designated as permanently affordable and sold through our Homeworks program come with affordable covenants that ensure that 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

Income Restrictions

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.

Maximum Resale Price

The home will have a Maximum Resale Price Limit which includes limiting appreciation

Maintenance Requirement

The buyer is required to maintain their affordable home in a manner that protects the health, safety and livability of the home's future owners.

Capital Improvements

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.

Refinance

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.

Owner Occupancy

The home must be occupied by the owner unless the city has approved a rental arrangement.

Rental

- 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.
- A bedroom in the home may be rented at any time of owner occupancy, providing no city codes are violated.

If you would like to receive a full sample copy of the Covenant please email homeownership@bouldercolorado.gov.



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City of Boulder Mortgage Policy

EFFECTIVE DATE: 03/02/2007

LAST REVISED: 6/19/2013

PURPOSE

The City of Boulder requires that mortgages on permanently affordable homes meet several requirements. The intent of these requirements is to reduce the risk of default and foreclosure. In the event of foreclosure, the resale restrictions terminate unless the city intervenes by paying the default amount per the Permanently Affordable Housing Covenant. As such intervention typically requires a significant public investment, 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. Please contact us with comments or questions at 303-441-3157 x 2.

POLICY

General Mortgage Requirements

- Buyers must receive mortgages from institutional lenders; private financing is not allowed.
- The city considers a mortgage affordable if the applicant's total debt to income ratio does not exceed 42%. In most cases, the city will not approve a debt to income ratio above 42%.
- "Debt" includes monthly PITI, HOA dues, flood insurance premiums and all other monthly debt payments including student or other debt in deferment/forbearance.
- If the lender of debt in deferment/forbearance can not provide an estimate of monthly payments, 2% of the total student debt divided by 12 months will be used to estimate the monthly payments.
- "Income" is the applicant's gross income as determined by the city.
 - The city allows a ratio of up to 45% if three of six qualifying criteria are met:
 - a) Median FICO credit score must be at least 700
 - b) Payment shock does not exceed 20% of the buyer's current housing payment
 - c) Buyer will have three months PITI and HOA dues in the bank after closing
 - d) Potential for available income to increase (for example):
 - i) One spouse in school
 - ii) Child care costs decreasing
 - iii) Parent returning to workforce
 - iv) Change in career/employment
 - e) Responsible and/or limited user of credit
 - f) Down payment of at least 10%



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- The debt to income ratio will be calculated using the household income and debt of all people 18 years and older who will be living in the household – even if they do not appear on the loan.
- First mortgage interest rate can not exceed the Fannie Mae 60-day rate by more than 1%.
- “A” paper loan; no sub-prime mortgages.
- A co-signer/guarantor is allowed provided s/he does not appear on title to the property. If the co-signer/guarantor will be on title, his/her income, assets and debts must be considered as part of the household, and s/he must occupy the property.
- A buyer using a co-signer/guarantor must have a total debt to income ratio of 42% or below based on his/her income alone .
- Interest-only or other non-amortizing loans are not permitted.
- 80/20 programs are acceptable if the second mortgage is a fixed-rate amortizing loan.
- Prepayment penalties are not allowed.

Permitted Adjustable Rate Mortgages

- A minimum of three years before rate adjustment.
- At least one year between interest rate adjustments.
- 2% cap on annual interest rate increase.
- 6% cap on total interest rate increase.
- No prepayment penalties.
- Initial interest rate at least 1% below the Fannie Mae 60-day rate for a 30-year fixed rate mortgage.
- Initial interest rate no more than 1% above the FHA rate for the comparable term ARM.
- No interest-only or negative amortization.

Purchase mortgages

- Up to 100% CLTV (value equals affordable purchase price).
- Buyer must use \$2000 of own funds (may be a personal gift) for down payment or closing costs.

Refinancing

- A homeowner may do a cash-out refinance as long as the combined loan-to-value ratio (CLTV) does not exceed 93%. (Value equals maximum resale price under the terms of the city's Covenant – contact us for the exact amount.)
- A homeowner may do a straight rate and/or term refinance of the existing principal balance plus one percent (to cover accrued interest and loan closing costs) to the extent the combined loan-to-value ratio does not exceed 93%.



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Home equity loans (e.g. second mortgages, HELOCs, etc.)

- CLTV must not exceed 93%.
- For a HELOC (adjustable rate, interest only), CLTV must not exceed 90%.

Non-standard mortgages (no-doc, stated-income, non-institutional, etc.)

The mortgage terms and documents must be approved by the city and granted an exception. The income used to qualify for the mortgage must be the same as the income certified by the city.

Exception Requests

Exceptions to this policy may be requested and will be decided by Housing Division staff after considering the advice of the Homeownership Committee. An exception request should explain why the proposed mortgage is required and how any additional risk of default will be addressed.

- Please contact us at least two weeks prior to closing if the buyer wants a mortgage that doesn't meet our requirements.
- Prior to closing, the city must receive updated loan disclosures.
- Any discrepancies between the loan disclosures and the closed financing may result in a prohibition on further participation in the city's homeownership programs.

Appraisal Commentary

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)."



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Purchase Loans

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

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

Certified buyers that are entering into a purchase contract will be required to provide documents to the city before closing. If you are working with a city buyer then you should expect them to ask you to forward the following documents to their specific staff contact:

- 1) Truth-In-Lending Statement
- 2) Good Faith Estimate
- 3) Most recent 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 DTI ratio certifications. Finally, the information found in the GFE, loan application, and TIL will be used to determine whether a Solution Grant will be made available to the buyer.



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Down Payment Assistance Programs

The city features two down payment assistance options. The Solution Grant is for use in purchasing a permanently affordable home through the Homeworks Program. The House to Homeownership program (H2O) is our only program with no resale restriction, and it can help open-market buyers make a larger down payment by offering up to 15% of the home's purchase price as a loan.

THE SOLUTION GRANT assists those with limited assets to afford down payment and closing costs for Homeworks homes in the low-moderate income program, or for properties purchased within the city limits through Thistle Communities Land Trust Program.

This is a "bridge grant" meaning that buyer assets must be used first, and then the grant can help cover the gap between available assets and costs to close. We will require that most available personal assets be used before grant money is applied. The goal is to help a homebuyer reach the minimum down payment required by their lender and cover the closing costs for the transaction.

The grant award will never exceed 5% of the home's purchase price. It exists to help those with limited assets to cover basic purchase costs. It will not be awarded to eliminate mortgage insurance, provide a down payment higher than 5%, or allow the homeowner to use fewer assets in the transaction.

Grant amounts will not be determined until after a buyer and seller have signed a sales contract. We need to know the price of the home, details of the mortgage loan, and available buyer assets, to determine the amount that will be granted. Typically the grant amount is announced within two weeks of closing after all lender and title documents have been reviewed by city staff.

THE HOUSE TO HOME OWNERSHIP (H2O) program is a deferred loan. The maximum loan amount for this program is the lesser of \$50,000 or 15% of the home's value. At 15 years or transfer the loan is due in its entirety plus a percentage of appreciation equal to the percentage of the H2O loan to the purchase price. If the home is sold or refinanced within two years only the original amount borrowed is due.

EXAMPLE 1

Purchase Price	H2O Loan Amount	Loan %	Appreciation	Amount Due at Transfer
\$200,000	\$20,000	10%	\$80,000	\$28,000 (\$20,000 + \$8,000)
\$200,000	\$35,000	15%	\$80,000	\$42,000 (\$35,000 + \$8,000)

EXAMPLE 2

Purchase Price	H2O Loan Amount	Loan %	Appreciation	Amount Due at Transfer
\$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)

The amount of the H2O loan will be determined based on the contract price of the home and the amount of assets that the buyer already has available. The H2O loan helps to bridge the gap between available assets and costs when a buyer does not have enough funding to purchase an open market home.



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Setting the Maximum Resale Price of Permanently Affordable Homes

Every year the City of Boulder Homeownership Program sends a letter to owners in the permanently affordable program. The intent of the letters is to:

- Communicate relevant information regarding the home and any changes to the Homeownership Program that may affect the ownership experience.
- Provide information about annual appreciation.
- Provide information about the maximum resale price of the home based on appreciation and capital improvements or updates.

We use the term “Maximum Resale Price” when communicating the maximum home value for purposes of sale or refinance. This amount strikes a balance between keeping the price affordable and allowing owners to receive a return on their investment in the property. Note that the formula focuses on keeping the homes affordable, and is not tied to the performance of the real estate market. Here is how the city calculates the maximum resale price:

- Start with the original purchase price
- Subtract the amount of any Solutions Grant monies received (see Appendix A)
- Add appreciation between 1.0 - 3.5 % per year as announced by the City of Boulder in the annual homeowner letter
- Add the cost of approved capital improvements or updates made to the home

Example

Home Purchase Price:	\$210,000
Solutions Grant Received:	<u>-\$8,000</u>
Starting Price for Resale:	\$202,000
Appreciation Year One (2.3%):	\$4,646 ($\$202,000 \times 2.3\%$)
New Max Resale Price:	\$206,646 ($\$202,000 + \$4,646$)
Appreciation Year Two (1.8%):	\$3,636 ($\$202,000 \times 1.8\%$)
Capital Improvement Credit:	\$3,800
New Max Resale Price:	\$214,082 ($\$206,646 + \$3,636 + \$3,800$)



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Refinancing

Owners may refinance a mortgage used to purchase their home if the refinance is a straight rate and/or term refinance of the existing principal balance plus one percent (to cover closing and associated costs). If they wish to take cash out of your home, they may not refinance for more than 93 percent of the current Maximum Resale Price of the home.

The City of Boulder must approve the terms of the loan and will then prepare a subordination agreement for the closing. In order to approve the refinance and provide the subordination we will need the following documents from the lender:

- 1) Good Faith Estimate
- 2) Truth in Lending Statement
- 3) Form 1003 (printed, not handwritten)
- 4) Title Commitment

Once the above documents have been received we require a minimum of 5 business days to analyze the loan, process our subordination, and send documentation to Title for closing. Please note that if terms or amounts change then we must receive new versions of all of the above documents.



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Recommended Resource for Foreclosure Prevention

If you are behind in mortgage or HOA payments, or have been served a notice of foreclosure, 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 for all who have missed a payment or who think they may miss a payment.
- If you are in jeopardy of foreclosure, or know someone who is, contact the Boulder County Housing Authority's new Housing Counseling Program hotline at **720-564-2279**.

BCHA's housing counselors are neutral parties who are not dependent on funding from either the lender or the borrower, and 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 online 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 your neighborhood. The Homeownership Program has no jurisdiction or vote in community matters. Active participation in your HOA will help to ensure a good homeownership experience.



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Frequently Asked Questions

How much should the home be valued at for purposes of property taxes?

The Boulder County Assessor's office recognizes your maximum resale price as the value of your home for tax purposes. The City Housing Division sends an updated list to the Assessor's office annually. If your Notice of Valuation from the Assessor is significantly different from your maximum resale price, please contact homeownership@bouldercolorado.gov or 303-441-3157 x 2.

Do you have an owner occupancy restriction?

Yes. Buyers must live in your home for at least five years before being eligible to rent the home in full. At that point it may be rented for a period of time totaling 12 months out of every seven years. A room in the house may be rented at any time with permission from the city.

How should my appraiser go about valuing the home?

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)."

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.

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 legal 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, but we will subordinate it to the first mortgage. Every homeowner has been assigned a case manager so please contact that staff person directly. If your client does not know who their case manager is then please phone us at 303-441-3157 ext. 2 or email us at homeownership@bouldercolorado.gov.



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