# CITY OF BOULDER
# DIVISION OF HOUSING

## Homeownership Program
## Mortgage Policy

EFFECTIVE DATE: 03/02/2007
LAST REVISED: 1/9/2014

**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%.

- "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%

- "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.

- The debt to income ratio will be calculated using the housheold 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.

**Gift Limitations**

Applicants are allowed friend/family gifts of 20% or less of the affordable home's price to assist with down payment and closing costs.

**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%.

**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)."