City of Boulder
Planning, Housing and Sustainability

Mortgage Policy

EFFECTIVE DATE: 3/2/2007
REVISED: 9/19/2019

PURPOSE

The City of Boulder requires all mortgages on permanently affordable homes to meet several requirements. The intent of these requirements is to reduce the risk of default and foreclosure in order to protect the future of the limited resources of the Permanently Affordable Homeownership Program.

In the event of foreclosure, the resale restrictions terminate unless the city intervenes. 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 monetary investment in the home.

The mortgage policy has been developed to protect the community's interest in the homes in this program while attempting to preserve adequate borrowing options for program participants.

POLICY

Borrowers

- "Income" is defined as the household's gross income as determined by the city, and is modeled after HUD's income determination allowances for the HOME Program.
- For refinance mortgages the city will use the lender's calculated income unless there is a need for the City to calculate the income.
- Household income will include the gross incomes from all sources of all household members age 18 and older. In some cases, income sources from household members under the age of 18 will also be included.
- Income will be projected for 12 months based on actual earnings, tax statements, and other documentation provided by applicants to the city.
- Buyer must have a minimum of $2,000 available for down payment and closing costs.
- Buyers are allowed gifts of 20% or less of the affordable home's price to assist with down payment and closing costs. Gifts must be disclosed on the loan application (form 1003), and a gift letter provided by the buyer, before final program approval or a grant commitment amount will be issued.
- Debt-to-Income ratio (DTI) will be calculated using household income and debt of all people age 18 years and older who at the time of application will knowingly reside in the home, even if they do not appear on the mortgage loan.
- "Debt" includes monthly PITI (principle, interest, taxes, and insurance), HOA dues, flood insurance premiums, student and other loans (even if in deferment or forbearance), credit cards minimums, car notes, and all other monthly debt obligations.
- If the lender of student loan debt in deferment or forbearance cannot provide an estimate of monthly payments, 1% of the total student debt will be used to estimate the monthly payments.
- The city considers a mortgage affordable if the household'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%.

- An exception to debt to income ratio requirements will allow a household to have a ratio of up to 45% for fixed-term loans only if at least three of the following six qualifying criteria are met:
  - Median FICO credit score of 700 or better for at least one household member on the loan application.
  - Payment shock does not exceed 20% of the buyer's current housing payment.
  - Buyer will have a minimum of three months PITI and HOA dues in the bank after closing.
  - Applicant has unbroken two-year work history in their current field of practice.
  - No late payments on credit report in most recent 12 months.
  - Down payment of at least 10%.
- The city will consider a higher debt-to-income ratio if a buyer is using an energy mortgage. The buyer needs to demonstrate the value of the future energy savings.
- A co-signer/guarantor is allowed provided they do not appear on title to the property. In this situation, the buyer(s) must meet the debt to income ratio requirement without including the income of the co-signor/guarantor.
- If the co-signer/guarantor will be on title, then they must occupy the property as their primary residence. In addition, they will need to be included on the program application, so their income, assets and debt will be included as part of the total calculation in determining household eligibility.

Loans

- Mortgages must come from institutional lenders. Private financing is not permitted.
- Interest-only, negative amortizing or other non-amortizing loans are not permitted.
- 80/20 programs are acceptable if the second mortgage is a fixed-rate amortizing loan.
- No sub-prime mortgages.
- Prepayment penalties are not allowed.
- Fixed rate first mortgage interest rate cannot exceed the Fannie Mae 60-day rate by more than 1%. This includes the primary mortgage only. Loans with lender paid mortgage insurance or lender provided down payment grants with higher rates may be considered at the discretion of the program. Acceptance of alternative loan terms will be based on staff review of the current lending environment and input from program management.
- Fixed rate second mortgage interest rate cannot exceed the Fannie Mae 60-day rate by more than 2.5%. This includes any junior mortgages (i.e. home equity loans).
- At initial purchase, mortgages totaling up to 100% CLTV are permitted. Value equals the affordable purchase price.
- Post-purchase mortgages (refinances, second mortgages) will be permitted, if the CLTV of all loans associated with the property when combined do not exceed 93%.
- For a straight rate or term refinance, up to 93% CLTV is permitted. This includes the existing principal balance plus one percent to cover accrued interest and loan closing costs. Value will be determined by the city based on the covenant-restricted maximum resale amount at time of refinance.
- Home Equity Lines of Credit (HELOCs) are permitted (adjustable rate, interest only) if they meet these requirements:
  - CLTV must not exceed 90% of the maximum resale value.
  - Debt-to-Income ratio up to 42% - cannot go higher even if they meet 3 of the 6 items listed above
  - HELOC cannot be for more than 33% of the home’s value
  - Initial interest rate cannot be more than 1.25% above the Wall Street Journal Prime Rate
  - Annual rate change cannot be more than 3% **or** rate needs to be tied to the Wall Street Journal Prime Rate
- For the purposes of combined loan to value (CLTV) calculations for refinances and HELOCs, the value shall be the then applicable maximum resale price without the addition of costs of sale.

- To approve a subordination request relating to a refinance or HELOC staff must first review copies of the Loan Estimate, loan application (Form 1003), title work, and appraisal (if applicable).
- Home Equity Conversion Mortgages (also known as "HECM" or "Reverse" mortgages) are not permitted based on HUD's determination that properties with price restriction limits are not acceptable for these types of loans.
- Adjustable Rate Mortgages (ARMs) are permitted when all of the following conditions are met:
  - A minimum of five years before rate adjustment.
  - At least one year between interest rate adjustments.
  - 6% cap on total interest rate increase for the life of the loan.
  - No prepayment penalties.
  - Initial interest rate is at least 0.5% below the Fannie Mae 60-day rate for a 30-year fixed rate mortgage.
  - No interest-only or negative amortization.
  - No payment caps allowed.
- Alternative loan terms may be considered for loans not eligible for underwriting on the secondary loan market (for use on non-warrantable properties), at the discretion of the program. Acceptance of alternative loan terms will be based on staff review of the current lending environment and input from program management.
- Prior to closing, the city must receive the final loan Closing Disclosure (CD).
- Solution Grant funds are not guaranteed, so should not be estimated in determining maximum purchase price.

Exception Requests
Exceptions to this policy may be requested under the following procedure.

- The exception request must be provided in writing at least 4 weeks prior to closing. Shorter timelines may necessitate closing delays.
- An exception request should explain why the proposed mortgage is required and how any additional risk of default will be addressed.
- The request will be reviewed by staff and provided to the Homeownership Committee if the exception appears to provide a tolerable level of risk to the city.
- Exception approval may be conditioned upon completion of actions (e.g. owners or buyers participate in counseling from a certified housing counseling agency before a loan closing can take place).
- Any discrepancies between the final loan Closing Disclosure and the settlement sheet and/or summary may result in a prohibition on further participation in the city's homeownership programs.

Non-standard mortgages (no-doc, stated-income, non-institutional, etc.) **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. Please expect a minimum of 30 days before a decision can be issued.

The city will not subordinate its own promissory note and deed of trust to any loan that does not comply with this policy, or which has not been granted an exception.

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)."