Mortgage Policy

EFFECTIVE DATE: 03/02/2007
LAST REVISED:

Jeff Yegian, Homeownership Program Manager

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 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. Please contact us with comments or questions.

POLICY

General Mortgage Requirements

- The City considers a mortgage affordable if the applicant's total debt to income ratio doesn't exceed 42%. "Debt" includes monthly PITI, HOA dues, flood insurance premiums and all other monthly debt payments. "Income" is the applicant's gross income as determined by the City. The City allows a ratio up to 45% if three of five qualifying criteria are met.

  a) Median credit score must be at least 700.
  b) Payment shock must not exceed 10% 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) Small child at home soon to transition out of daycare;
     iii) Change in career/employment.
  e) Limited user of credit.

- First mortgage interest rate can't exceed the Fannie Mae 60-day rate by more than 1%.
- "A" paper loan; no sub prime mortgages.
- A co-signer/guarantor is allowed providing she does not appear on title to the property. If the co-signer/guarantor will be on title, her income must be considered as part of the household and she must occupy the property.

- A buyer using a co-signer/guarantor must meet the back ratio requirement based on his 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.

Note that Fannie Mae and FHA have approved the City's covenant. Copies of their approval letters are available upon request.

Purchase mortgages

- Up to 100% CLTV (value equals 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 so long as the loan to value ratio 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 refinance a mortgage used to purchase her unit regardless of the loan to value ratio if the refinance is a straight rate and/or term refinance of the existing principal balance plus one percent (to cover accrued interest and loan closing costs).

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.

Required Procedures

- Please contact us at least 2 weeks prior to closing if the buyer wants a mortgage that doesn't meet our requirements.
- Prior to closing, you and the buyer will sign a form listing the loan terms.
- The City will receive a copy of the signed promissory note, HUD-1 and Truth In Lending after closing. Any discrepancies between the signed form and the closed financing may result in a prohibition on further participation in the City's homeownership programs.

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

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)."