STUDY SESSION MEMORANDUM

TO: Mayor and Members of Council

FROM: Jane S. Brautigam, City Manager
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DATE: July 23, 2019

SUBJECT: Study Session for July 23, 2019
Middle Income Downpayment Assistance Pilot

EXECUTIVE SUMMARY

City Council prioritized the Middle Income Downpayment Assistance pilot project at the January 2018 retreat. This decision was based on work that was done to address the loss of middle-income households in Boulder, as documented in the Middle Income Housing Strategy and adopted by council in fall 2016. In response to this trend, council members Weaver and Yates crafted a white paper describing a potential down payment assistance pilot titled *A Shared Equity Model for Middle-Income Affordable Housing Home Ownership in Boulder*. Staff prepared a memo to expand upon this white paper with additional background research and drafted a clear problem or "why" statement and a purpose statement that was discussed by council on Feb. 19, 2019.

After discussions with local lenders and industry experts, it appears that the funding source for the pilot could be the existing H2O funds (approximately $820,000) in combination with either bonds, a private placement with a financial institution, or a line of credit (LOC). All options require a ballot measure and draft language is included in this memo for council consideration.

Several policy questions remain for council to consider prior to moving forward with a potential pilot. These include: 1) determining an appropriate appreciation limit for homes in the program with a deed restriction; and 2) determining the maximum income and asset limits of program participants, if any. This memo includes a short summary of the pilot history, the benefits and risks of the various approaches, draft ballot language and next steps.

QUESTIONS FOR COUNCIL

1. Which option does council prefer for appreciation cap: cost of borrowing (4%), AMI increase (2.1%) or a different fixed rate?
2. Based on the appreciation cap, should the AMI and income limits be raised or eliminated for future buyers of the deed restricted home?
3. Does council have any concerns with the draft ballot measure language?

BACKGROUND

Feb. 19 Council Study Session

The Feb. 19 council memo provided an overview of homeownership challenges in Boulder and the need for down payment assistance for middle-income households to remain in our community. The memo also detailed the objectives and potential mechanisms of a potential pilot with the following why and purpose statements.

"Why" Statement

Boulder is doing well building and preserving housing for low- and moderate-income households (30-60% of Area Median Income (AMI)). The city currently has 7.5% of its housing stock as permanently affordable and recently increased the goal from 10 to 15%. However, it is increasingly difficult for middle-income households (up to 120% of AMI) to purchase a home in Boulder. This is a result of housing prices outpacing income growth for many years, leaving many middle-income households priced out of home ownership in Boulder.

Purpose Statement

Create a program to assist middle-income Boulder workers or residents to purchase a home. The goal is to preserve economic diversity in the city and potentially reduce in-commuting.

Pilot History

The pilot was first conceived as a method for the city to provide down payment assistance at no or low cost to the city. Several models were explored where local lenders would provide the down payment assistance (i.e., a second mortgage) and the city would guarantee the second mortgage and service the loan (i.e., make interest payments) to reduce a homebuyers monthly housing expenses. There was interest from local lenders to participate in such a program until it was determined that the Colorado constitution prohibits municipalities from guaranteeing loans.

FUNDING

Based on feedback from the industry experts, council members Weaver and Yates requested that staff focus on three funding options. Below are descriptions.

Ballot Question to Ask the Voters to Borrow. If approved by the voters, this allows the city to borrow a certain amount of money to be paid back over time. To comply with the TABOR requirements voters must approve any debt amounts to be paid back over multiple years, and the estimated total debt service to be paid during the time the borrowed money would be outstanding. The borrowing could be done by using bonds, a private placement with a financial institution (has all of the attributes of a bond but is issued differently), or a line of credit (LOC). All methods can be done using a competitive process.

The differences in the method used is that a bond or private placement would require borrowing a lump sum with principal and interest be paid back each year. A LOC could be structured so the amount borrowed is only the amount needed at that time. The annual payments to be made by the city could be interest only on the amount borrowed, with the principal being paid off as a balloon payment at the end of the loan (estimated to be seven to ten years). For purposes of the following example the repayment annually will be interest only on the actual money borrowed. This would significantly reduce the amount of money that would need to be paid out annually until the loan was paid off. Please note: for simplicity and illustrative purposes the amount to be borrowed in the examples is $10.5 million. If council moves forward with a ballot issue the amount to be borrowed is set by council and can be changed. In each example, the borrowed money would be issued as taxable borrowing. Due to federal tax laws, the bonds would be taxable since the benefit accrues to an individual instead of the community. Examples of both types of borrowing follow.

<u>LOC Example:</u> Voters approve borrowing $10.5 million. Ten loans of $150,000 are made annually over the first seven years, and the first loans are paid back in the seventh year. In total, $1.5 million of the LOC would be drawn down in each of the first seven years for a total of $10.5 million. Each year could be considered a separate tranche (year 1 would be tranche 1, year 2 would be tranche 2 continuing through the seven tranches. The city would only pay interest on the amount borrowed from the line of credit and would make no principal payments until the loan is paid off at the end of seven years for each tranche. That is, tranche one would pay off in year seven. Tranche two in year eight, tranche three in year nine, etc. If the interest rate that the city pays is 4%, then the total interest paid per $150,000 loan each full year is $6,000 (maximum of $60,000 if ten loans per year are made). When the house sells or refinances in the seventh year the city would collect the accumulated interest and principal at closing to pay off the remaining interest cost and the principal of the first LOC. Each subsequent year would see the same thing happen. As long as appreciation of the home is at least 4% per year the total transaction of the seven years will be equal, and the city and the homeowner would break even. The interest rate on LOCs can sometimes be variable over the time borrowed. This means the interest rate will reset over time to more closely reflect the changes in the economy have on the cost of borrowing money. Based on historical analysis staff has used 4% as the estimated aggregate interest rate over the time the LOCs would be outstanding. If interest rates would rise above this amount the council seated at that time could make changes to the program to reflect the reality at that time.

If appreciation is less than 4% the homeowner would need to contribute additional funds at the closing to pay back the loan. If appreciation of the home is greater than 4% the homeowner will be in a positive position.

The current H20 funds available (approximately, $820,000) could be used to make the first payments. If ten $150,000 loans are made each year it is estimated that it would be year five of the seven-year program before additional funds from the city would be needed to pay the annual interest costs. Additional funds would also be needed to cover potential loan defaults of program participants as well as covering the cost of administering the program.

Bond Example: Voters approve borrowing $10.5 million for a period of 7 years at 4% – the annual estimate to pay back the principal and interest on the bonds would be $1.75 million annually. Voters would have to approve the sale of the bonds. If a new revenue was being requested to make the annual payments voters would also have to approve this. If the annual payments are to be paid out of current revenues (not asking the voters for a new stream of money to pay the principal and interest) the ballot question for the new borrowing would say, without a tax increase may the city borrow $10.5 million dollars. To meet TABOR requirements, the ballot language would also include the estimated total amount of principal and interest that would be paid during the time the debt would be outstanding.

If a private placement or line of credit is used as the borrowing method, it is easier and less costly to borrow smaller amounts as funds would be needed for the assistance program. The LOC methodology is the most flexible since interest is only paid on the amount borrowed. It is possible though not known for certain that bidders for the LOC may include a small fee on the funds in the annual LOC that are not used. Based on discussions with staff of other governmental entities that use LOCs this amount is usually small in amount (estimated to be around $5,000 annually on each tranche) if it is included in the response. The issuance costs on a private placement or LOC would be significantly less than using multiple bond issues. The trade off, is the interest rate is sometimes higher. If bonds, or a private placement were the choice of method to use, instead of a LOC staff would run a cost analysis to determine which type of borrowing would be best to use at the time of issue. The recommendations would then be brought to council for approval.

The interest rate used in the ballot question is normally set higher in case interest rates would rise from the time a ballot item is approved by voters until the time the final borrowing occurs (eight years from the current year). If this is not done, and interest rates rise above the amount in the ballot then the total amount borrowed would have to be reduced until it fits into the total amount the ballot item says will be paid in total principal and interest. This would mean a reduction in the number of loans that could be issued. Based on a historical analysis of taxable issues over the past 20 years staff recommends a rate of 5.0 or 5.25 percent be used if a ballot question goes forward.

In all cases, the principal will have to be paid back. The difference is when it needs to be paid back. For bonds or private placements, it is paid back annually. For a LOC the principal is paid back at the end of the loan period (estimated to be seven years). Either way, once the principal is paid off there are not further funds available to lend unless the voters approve another round of borrowing, and a new source of funds is found to finance a future revolving fund.

Based on the analysis of the two different methods, the LOC option would be better for a pilot program. If there is no interest from community members in using this program, no money will be borrowed. If there is interest, only the amount needed would be borrowed. By using the interest only with a balloon payment methodology, the amount of money the city would have to front end would be minimized and used more effectively.

The program as presented would last for seven years if interest rate projections are met. The last tranche of the money borrowed would pay off in approximately 14 years.

BALLOT MEASURE LANGUAGE

If council chooses to issue bonds, then a vote is required to address TABOR requirements. The debt amount is blank, but currently a debt of $10 million at 5% interest is being discussed. The following is draft language prepared by the City Attorney's Office. At council's direction, the staff will work with the city's bond counsel to develop the ballot question to authorize such debt.

> SHALL CITY OF BOULDER DEBT BE INCREASED BY AN AMOUNT NOT TO EXCEED $____________, WITH A MAXIMUM REPAYMENT COST OF NOT TO EXCEED $__________________, WITHOUT RAISING TAXES, TO PROVIDE FOR A HOUSING ASSISTANCE PROGRAM TO MAKE LOANS TO MIDDLE INCOME HOUSEHOLDS TO PURCHASE HOMES SOLD IN BOULDER, SUCH DEBT TO BE SOLD AT SUCH TIME AND IN SUCH MANNER AND CONTAIN SUCH TERMS, NOT INCONSISTENT HEREWITH, AS THE CITY COUNCIL MAY DETERMINE AND TO PAY ALL NECESSARY OR INCIDENTAL COSTS RELATED THERETO BY THE ISSUANCE AND PAYMENT OF NOTES, BONDS, LETTERS OF CREDIT OR OTHER DEBT OBLIGATIONS AS PROVIDED BY THE CITY CHARTER, WHICH OBLIGATIONS SHALL BE PAYABLE FROM THE GENERAL FUND AND ANY OTHER LEGALLY AVAILABLE FUNDS OF THE CITY, ALL WITHOUT IN ANY OTHER WAY AFFECTING THE CITY'S OTHER TAXES, REVENUES OR EXPENDITURES UNDER THE CONSTITUTION AND LAWS OF THIS STATE?
>
> FOR THE MEASURE____ AGAINST THE MEASURE____

ANALYSIS

On Feb. 19, council provided direction on the mechanics of a potential pilot (e.g., who is eligible, what homes are eligible, credit for home improvements etc.) that resembles the current affordable homeownership program. These mechanics are detailed in **Attachment A** – Pilot Approach. There are two important considerations for a pilot that are outstanding:

1. Allowed annual appreciation rate of an affordable middle-income home; and
2. Income limitations for the initial borrower and future buyers of the permanently affordable home.

Appreciation

Option A. AMI Appreciation Methodology

One option to cap appreciation of affordable middle-income homes is to tie the rate of increase to increases in the area median income. The average annual increase in AMI over the past 10 years was 2.1%. This is a lower appreciation rate than Option B and the primary benefit is that the home remains more affordable for future middle-income borrowers. But it is less attractive for homebuyers to participate in the program because they will see well below market rate appreciation (the market appreciated approximately 7% annually over the past 10 years).

Option B. Cost of Lending
Another option is to tie the appreciation rate to the city's cost of borrowing. For example, bond rates or the interest on a line of credit are likely to fluctuate slightly between 3-5% over a 10-year period, therefore for the purpose of this analysis 4% was chosen.[1] This rate of appreciation allows the city to pay for the cost of the bonding and is good for the initial seller (i.e., higher sales price at resale), but makes the home less affordable for future purchasers.

Option C. Fixed Rate
The final option is to determine a fixed appreciation rate depending on the policy objectives of the pilot.

Income Limitations
Option X. Limit Program to 120% AMI
Related to appreciation is the second consideration of asset and income limits. This option would limit the initial homebuyer and future buyers of the same home to the current middle-income asset and income limitations. The 2019 AMI limits for a household of three earning 120% AMI are $122,760 in annual income and $170,000 in assets. Only households earning less and with assets less than $170,000 would be eligible to participate in the program. These limits would apply to both the initial buyer and all subsequent buyers of the permanently affordable home. The primary advantage of this option is to clearly serve income levels targeted by the city's middle-income housing strategy.

Option Y. Limit Program for First Buyer Only
Another option is to remove restrictions for future buyers. This could take the form of allowing increasingly higher AMI levels with each resale, removing the AMI limit entirely for all resales, removing the asset limitation, or some combination.

Benefits and Risks to the City
There are benefits to the city with a downpayment assistance pilot. The city receives a permanently affordable middle-income home in exchange for providing assistance. The city is repaid with interest by the homebuyer within 7-10 years. Most importantly, it advances city policies to reduce in-commuting and promote a diversity of incomes and households.

There are also potential risks to the city with the pilot. Some participants may embrace the assistance now and later regret the decision. While participation is voluntary, staff experience with the city's affordable homeownership program is that some buyers of affordable homes do not fully anticipate the costs of homeownership, and in particular, Homeowners Associations dues and special assessments. While staff is working to better understand these concerns and bring options for council consideration later this year, it provides an important cautionary tale. The situation of an affordable homeowner having to repay the city for a downpayment assistance loan ($138,000 plus $29,000 in interest) after 10 years is a potential concern. Finally, in the event of a financial crisis, the city may not have enough reserves to purchase homes to prevent foreclosure and the loss of the affordability covenant. Based on experience with the current

[1] The actual rate to issue debt will be a competitive process based on current market conditions, the strength of the City's Credit Rating and the market demand for the type of debt.

affordable homeownership program default rates, staff recommends setting aside a minimum of $1.2 million to cover up to two homes under foreclosure at the same time.

Benefits and Risks to the Home Purchaser

There are also benefits to the home purchaser with a downpayment assistance pilot. The assistance allows a household to purchase a home in the City of Boulder that otherwise is unattainable. The purchaser will still accumulate wealth in the form of paying down the principal while accumulating the value of appreciation.

There are also potential risks to a pilot for the home purchaser. The purchaser is agreeing to limit appreciation of their home while agreeing to pay back the full amount of assistance from the city, with interest. While this may be acceptable to those who wish to live in Boulder, many will choose to receive market rate appreciation in the immediately surrounding communities. The city's assistance is in the form of a balloon payment at the end of 10 years. Refinancing the home to repay the city will extend the life of the homeowner's debt obligation by 10 years and based on the $600,000 initial purchase price example, the monthly payment would increase by 20% at the time of refinancing.[2] While some homeowners will see their incomes grow over a 10-year period, that is not universal. Some households will be challenged to refinance the full amount, particularly if interest rates climb above what has been historically low levels in the past decade.

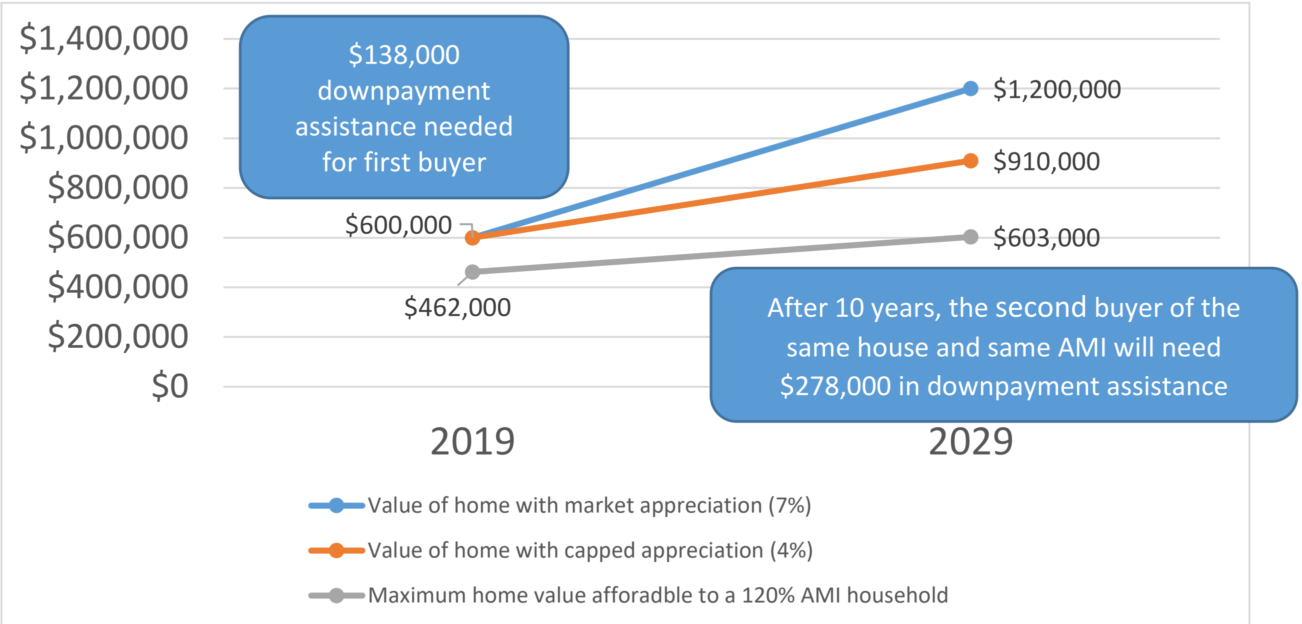
Resale of Middle-Income Homes

Staff modeled several scenarios to better understand how the downpayment assistance program would function including what happens at the time of resale. The resale of the affordable home is complicated by the fact that additional city subsidy may be required for future owners depending on the allowed rate of appreciation and AMI levels served.

The following graph shows one scenario assuming a 4% appreciation rate (the city's cost to borrow) and the potential impacts on future buyers of a deed restricted home. If the city provides $138,000 in assistance for a $600,000 home to the initial purchaser who earns 120% of the AMI, the second buyer earning 120% of the AMI will need $278,000 in downpayment assistance from the city to purchase the same home. The affordability gap for the first homeowner increases for the second owner, if they both have a similar down payment. The gap is further widened when appreciation rates increase at a higher rate than AMI. In this scenario, the city would not receive a return on the investment to repay the bond.

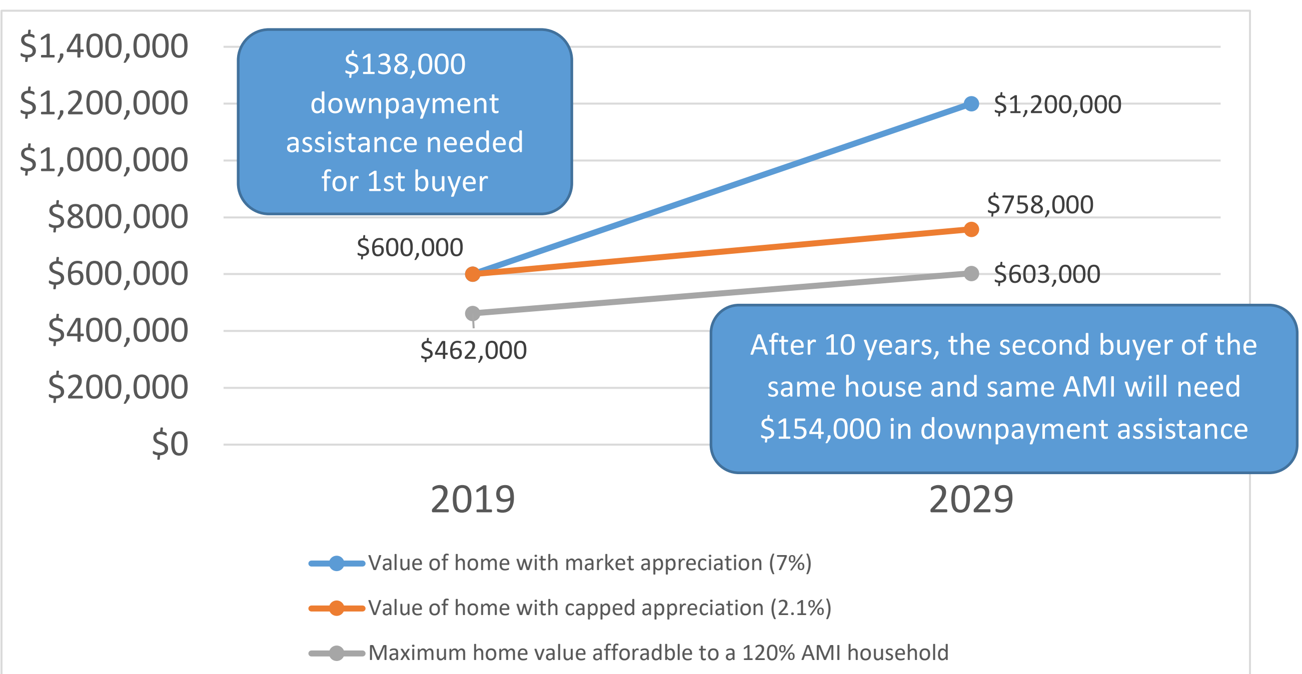
[2] The example is a $600,000 initial purchase price to a homebuyer earning 120% AMI. At a 5.0% interest rate, the principal and interest payment for the first 10 years is $2,321. After 10 years, a refinance at the same interest rate that includes the outstanding loan balance of the first mortgage and the repayment of the second (plus 4% interest) would result in a monthly payment of $2,783.

Figure 1. Resale Scenario Using Cost of Lending (4%)



The following graph provides a comparison using AMI to determine the appreciation rate (2.1% based on a 10-year average). If the city provides the same $138,000 in assistance for a $600,000 home to the initial purchaser earning 120% AMI, the second buyer earning 120% AMI will need $154,000 in downpayment assistance from the city to purchase the home.

Figure 2. Resale Scenario Using AMI Method (2.1%)



The affordability gap for the first homeowner remains for the second owner in both scenarios and as a result, the city will not receive a return on the investment to repay the bond or line of credit within the 10-year time period.

One option to address this gap is to allow the AMI eligibility level to increase with each resale. For example, if the home is initially purchased by a household earning 100% AMI, then at resale a 120% AMI household would be needed to be able to afford this same home to avoid additional city subsidy. The city could also avoid additional subsidy if the second homebuyer at 120% AMI has a sufficient downpayment to cover the gap. The primary benefit of not restricting the AMI of future buyers is that there would be below market homes available in the community and the city would receive in return creating a financially sustainable model. The downside is that the city would not be able to target households of specific incomes at each resale.

The following table shows two scenarios. One allows the AMI levels served to increase over time and the other scenario shows the additional subsidy required to keep the AMI limit serving middle-income households. In option 1, if the appreciation rate is set to the cost of borrowing, the second household to purchase the home will need an income of 160% AMI in 10 years (2029 dollars). In 20 years, the same home will need a buyer with an income of at least 194% AMI (2039 dollars).

Table 1. Comparison of Different AMI Limits and Appreciation Rates

Option 1 - No Limit on Future AMI - Appreciation set at City's cost to Borrow (4%)					
		Year 10 Sale to 2nd Buyer		**Year 20 Sale to 3rd Buyer**	
	1st Buyer	1st Owner Sells	2nd Owner Purchases	2nd Owner Sells	3rd Owner Purchases
House Price	$600,000	$910,350	$910,350	$1,381,229	$1,381,229
Annual Appreciation (4%)	4%	4%	4%	4%	4%
AMI Level	120%		160% AMI		194% AMI
Down Payment Assistance Needed	$137,643				
Interest on Down Payment Assistance	$14,985				
Owner Down Payment (5%)	$30,000		$45,518		$69,061

Option 2 - AMI Method - Aligned with current Homeownership Program (2.1%)					
		Year 10 Sale to 2nd Buyer		Year 20 Sale to 3rd Buyer	
	1st Buyer	1st Owner Sells	2nd Owner Purchases	2nd Owner Sells	3rd Owner Purchases
House Price	$600,000	$757,064	$757,064	$955,243	$955,243
Annual Appreciation (2%)	2.1%	2.1%	2.1%	2.1%	2.1%
AMI Level	120%		120%		120%
Down Payment Assistance Needed for 120% AMI	$137,643		$154,180		$228,287
Interest on Down Payment Assistance	$14,985				
Owner Down Payment (5%)	$30,000		$37,853		$47,762

In the Option 2, if the home value is capped to match increases in AMI, then each subsequent homeowner will need additional city subsidy. In this example, the first buyer will need $137,643, the second buyer in 10 years will need $154,180 and the third buyer in 20 years will need $228,287 in assistance from the city.

CONCLUSION

Council will need to weigh different policy objectives prior to moving forward with a pilot. Policy decisions will need to be made regarding the purpose of the program (i.e., restrict home prices, serve middle income households or both). As discussed in the Analysis section, there are clear benefits and risks to the city and the homebuyer depending on how the pilot is structured:

- higher interest rates compared to the recent past are a risk for both the city and the homeowner;
- a higher appreciation rate for the affordable home helps keep borrowing costs low for the city and benefits the first homebuyer;
- a lower appreciation rate for the affordable home increases the city's borrowing cost in perpetuity, but keeps the home more affordable for future homebuyers;
- AMI limits of 120% help the city to target specific households that will benefit from the program per current middle-income city policy; and
- higher or eliminated AMI and/or asset limits will allow the program to be more financially sustainable and create homes that are still more affordable than current market rate homes.

NEXT STEPS

Based on the direction from council, staff will continue to analyze the options for the pilot and other creative options as identified by council.

ATTACHMENTS

A. Draft Downpayment Assistance Pilot Approach

City of Boulder
Down Payment Assistance Pilot Approach
DRAFT 7.17.19

"Why" Statement

Boulder is doing well building and preserving housing for low- and moderate-income households (30-60% of Area Median Income (AMI)). The city currently has 7.5% of its housing stock as permanently affordable and recently increased the goal from 10 to 15%. However, it is increasingly difficult for middle-income households (up to 120% of AMI) to purchase a home in Boulder. This is a result of housing prices outpacing income growth for many years, leaving many middle-income households priced out of home ownership in Boulder.

Purpose Statement

Create a program to assist middle-income Boulder workers or residents to purchase a home. The goal is to preserve economic diversity in the city and potentially reduce in-commuting.

Pilot Outline

The city will issue bonds or draw upon a line of credit to provide down payment assistance to moderate- and middle-income home buyers to purchase a home. In exchange, the homeowner agrees to make that home permanently affordable through a deed restriction. For example, the income-and asset-qualified purchaser locates a home to buy which is below the median price for that type of housing. The buyers' have a down-payment of 5% ($30,000) but can only qualify for a loan from a commercial lender for 70% ($420,000) of a $600,000 purchase price. This leaves the buyers with a gap of 25% ($150,000). Under the proposed pilot, the city receives their application, determines if they are income- and asset-qualified and that the purchase price is below the median. The city borrows money to fund the second mortgage for 25% of the home value ($150,000). The advantage for the homebuyer is that there are no monthly payments on the second loan which reduces their monthly housing costs significantly.

In this example, the down payment arrangement continues until the home is sold or 10 years (whichever is earlier). At that time, the homeowner pays the city the amount of the second loan ($150,000) plus interest. The city's financial position is restored and the borrowed money is used to pay the city's bond or line of credit. The home with the deed restriction remains permanently affordable and is sold through the city's homeownership program to another eligible moderate to middle-income homebuyer.

Pilot Administration

The city will income and asset qualify purchasers using the current homeownership program process. The first mortgage will be administered by the home purchaser's participating bank of choice. The second mortgage will be administered through Impact Development Fund (a local non-profit community development financial institution (CDFI) that provides credit and financial services to underserved markets and populations).

Pilot Specifics

INCOME & ASSET LIMITATIONS	
HOUSEHOLD INCOME AND ASSET LIMITS – 2019 (Maximum of 120% AMI) Note: These limits only apply at the time of purchase. The city does not income and asset qualify in the years after a homeowner purchases a home.	Household Size / Income Limit / Asset Limit 1 / $95,520 / $140,000 2 / $109,080 / $155,000 3 / $122,760 / $170,000 4 / $136,320 / $185,000 Inquire for larger family sizes and see below for special asset scenarios These limits may need to be modified or eliminated depending on council's policy objectives.
INDIVIDUAL SCENARIOS THAT AFFECT ASSET LIMITS	• Recently Divorced • Retired • Permanently Disabled • Additional Family Members
MAXIMUM LOAN AMOUNT	$200,000
MAXIMUM HOME PURCHASE PRICE – 2019 Median Sales Price	Single-family Home $919,525 Condo or Townhome $435,000 Modular Home No limit
FEES	$25 application fee $300 origination fee
DEBT-TO-INCOME RATIO	Debt-to-Income ratio may not exceed 42% in most cases.
BUYER'S MINIMUM CASH CONTRIBUTION	Buyers are required to contribute at least 5% of the purchase price. Lenders may have requirements beyond this minimum.
TERM	At 10 years, or ownership transfer, the loan is due in its entirety plus interest.
LIVE / WORK IN BOULDER	• At least one person in the household must work 30 or more hours per week (unless retired or permanently disabled) • At least one person in the household must have a work history of 1 year within the most recent 12 months • At least one person in the household must either live or work in Boulder for a period of two years prior to applying to the program

<table>
<tr><td>HOMEBUYER EDUCATION</td><td>To participate in the program each household must attend a city orientation, and a homebuyer education class approved by the Colorado Housing Finance Authority (CHFA). These classes are also available on-line.
• The city orientation is required prior to turning in an application.
• The CHFA-approved Homebuyer class is required prior to going under contract on a home.</td></tr>
<tr><td>LENDER/MORTGAGE LOAN</td><td>Applicants must submit as part of their city application packet:
• Copy of the mortgage loan application (as prepared by their lender, not handwritten).
• Mortgage Preapproval Letter that lists maximum purchase price, loan amount, minimum down payment, estimated PITI, interest rate, and loan type.</td></tr>
<tr><td>INSPECTION</td><td>The city requires an inspection to ensure the home meets basic livability standards.</td></tr>
<tr><td>IMPROVEMENTS</td><td>Homeowners may receive additional equity in a home for capital improvements (e.g., finishing a basement, replacing carpet with a more durable surface, etc.). The city’s current policies are in the <u>Homeownership Program Owners Guide.</u></td></tr>
<tr><td>RESALE RESTRICTIONS</td><td>• Homes must be re-sold to an eligible buyer after a fair marketing period.
• Resale price will be based on the original purchase price, plus annual appreciation (up to 3.5% per year) and approved capital improvements.
OPTIONS:
1. Use the rate of the AMI annual increase (average of 2.12 over the past 10 years);
2. Tie the rate to the cost of borrowing (currently estimated at 4%); or
3. Create a fixed rate.</td></tr>
<tr><td>OTHER REQUIREMENTS</td><td>• Buyers may have owned a home in the past, or still own a home at time of application. However, buyers must sell their home before closing on a Permanently Affordable home.
• Property must be owner-occupied as a principal residence (see definitions in Title 9, B.R.C. 1981).
• At time of resale, the number of bedrooms may exceed number in household by one in most cases.</td></tr>
</table>

	• Buyer must adhere to all covenant restrictions (a copy of the covenant is available upon request) • Short-term rentals on the property are prohibited.
CITY OF BOULDER EMPLOYEES	15% of the available funding will be set aside for City of Boulder employees.