



City of Boulder Housing & Human Services

Homeownership Program Pre-purchase Upgrades

Effective Date: 1/1/2024

Revised Date: 1/1/2024

PURPOSE

Permanently affordable homes are expected to be constructed as basic, but complete and livable homes for households with limited, qualifying incomes and assets. As such, upgrades should be offered and requested in moderation. On occasion, certain pre-purchase upgrades may be offered by the developer. Upgrades are in no way intended to replace normally expected building components. Acceptable upgrades are generally items which would be more costly or structurally difficult to add after construction.

POLICY

Eligible and Non-Eligible Upgrades

Items required by the International Building Code (IBC), the International Residential Code (IRC), and the building code of the municipality in which the home is built, must be provided by the developer as a part of the base home price and are not eligible as upgrades.

Pre-purchase upgrades eligible for 80% credit at resale are limited to items eligible under the current Capital Improvement and Update Policy with the following additions:

- Whole house humidifier: When purchased in conjunction with hardwood flooring only as a pre-purchase upgrade.
- Pre-wiring/pre-plumbing: Pre-wiring and/or pre-plumbing of air conditioning and/or ceiling fans as part of a new build.
- ADA improvements: Limited, with staff approval or an approved exception.

Non eligible pre-purchase upgrades (upgrades that will not receive any credits at resale) may also be offered to buyers and must be submitted for approval by the program prior to marketing.

Upgrades, Assets, and Program Provided Downpayment Assistance (Solution Grant, etc.)

- Households that elect to purchase upgrades will not be eligible for a program provided down payment assistance (i.e. Solution Grant, etc.). Buyers with limited assets are expected to put their assets toward down payment and closing costs.
- Funds expended for upgrades will not be exempted from asset limit totals.

Process

When the developer/builder of permanently affordable housing chooses to offer upgrades both eligible and non-eligible, the list of upgrades must be approved prior to marketing the units by the program. The list must specify what upgrades are proposed, the cost of each, and the amount of value that will be added to the resale price when the buyer sells in the future.

The program will make a copy of the eligible upgrade information available to buyers. The upgrade information will be based on upgrades agreed to with the developer before listing. This information will be included in the program's web listing.

All upgrades must be initiated by the purchaser. A developer may not opt for upgrades prior to signing a contract with a purchaser unless those upgrades will be at no charge to the purchaser.

Once upgrades are selected, the developer or purchaser must provide the following information to the program within two weeks of the upgrades being selected:

- the housing unit address and purchaser
- the specific upgrades selected
- the itemized cost of the upgrades
- if the upgrades are being financed
- the total amount (deposit, earnest money, upgrades payment, etc.) provided by the purchaser to the developer.

Failure to provide this information may result in the buyer not receiving credit that increases the value of their home after closing.

Approved eligible pre-purchase upgrades will receive an immediate credit of 80% of the out-of-pocket cost of the upgrade. The program will allow a buyer to purchase upgrades both eligible and non-eligible, costing up to \$30,000. Any credit for pre-purchase upgrades will count towards the standard \$30,000 Capital Credit allowed for each homeowner.

Approved eligible pre-purchase upgrades will be treated as eligible capital improvements for the purpose of determining future resale price. However, the Division of Housing will allow an increase in the sales price up to the amount of the pre-approved eligible upgrades (doing this may allow them to demonstrate to the lender they have 20% into the transaction and thus can eliminate mortgage insurance costs). The purchaser must agree by signing a Pre-Purchase Upgrade and Sales Price Agreement at closing, that the original purchase price specified by the covenant will remain as the purchase price without the upgrades for the purposes of determining appreciation and when calculating the resale price. Upgrade expenses approved for credit will only be added to the resale price in accordance with the covenant's provisions concerning Eligible Capital Improvements. The Pre-purchase Upgrade and Sales Price Agreement will be provided by the program.

Program staff must approve any mortgage that exceeds the maximum covenant price, or if the total housing payment plus other debt payments exceeds 42% of the buyer's program certified income. In addition, the loan-to-value ratio of the mortgage cannot be more than 100% of the original list price (i.e. upgrades cannot be financed). Questions about these issues should be directed to the program at least two weeks prior to the buyer committing to the upgrades.