

Capital Systems Upgrade Policy

Policy: Homeowners are entitled to receive credit for approved Capital Systems Upgrades at resale in accordance with this Policy. Capital Upgrade Credit will be compounded annually by 1.5% from the time the Capital Upgrade is completed.

Section I: DEFINITION OF CAPITAL SYSTEM UPGRADE:

A Capital System Upgrade is an improvement to a major building component for the purpose of increasing the home's safety, efficiency, or durability. Allowable Capital System upgrades are listed in the table below. They must be made during the Homeowner's ownership of the Home and the following conditions must be met:

- a. The Upgrade must be made with all required permits and approvals, including without limitation, homeowner's association and governmental approvals; AND
- b. The Upgrade must be documented in a Capital Upgrade Credit Agreement signed by the Executive Director and the Homeowner at the time the Upgrade is made; AND
- c. The Upgrade must have a value of \$1,000 or more, as documented by receipts; AND
- d. Once completed, HRB must inspect the project to ensure quality completion.

Capital Systems Upgrade credit is intended to incentivize investments that increase the home's safety, efficiency or durability. Generally, maintenance and replacement of systems such as roofs; exterior and interior painting; fixtures; flooring, floor coverings and other finishes; interior carpentry or masonry; and any other item not expressly listed in the table below are excluded from Capital Systems Upgrade Credit. Upgrades made by Homeowners for cosmetic reasons are excluded from Capital Systems Upgrade Credit.

Section II: CREDITS FOR CAPITAL UPGRADES

Homeowner shall be entitled to receive credit at the time of sale for Capital Upgrades made to the Property during their Ownership as follows:

- a. At the time it delivers its Notice of Intent to Sell, Homeowner shall deliver to HRB:
 - A copy of the Capital Upgrade Credit Agreement signed by the Executive Director and the Homeowner, which clearly states the value of the credit that will be given and its limitations.
- b. The initial value of Capital System Upgrade Credit will be determined by approved documented cost as described in the Capital Upgrade Credit Agreement(s) at the time of the Upgrade signed by HRB's Executive Director and the Homeowner, and then depreciated according to the Capital Upgrade Depreciation Schedule in use at the time the Credit Agreement was signed.
- c. The Capital Upgrade Depreciation Schedule shall be updated by HRB from time to time. The Executive Director shall have authority to grant credit on an exception basis to accommodate situations not contemplated by the policy and list, so long as they fit within the general intent of the policy.

- d. Credit for Capital Upgrades will be subject to the limitation described in “Affordability Cap” below.

SECTION III: AFFORDABILITY CAP

Credit for Capital Upgrades set forth above shall only be given to the extent it does not cause the home to become unaffordable to future income qualified buyers. This affordability will be determined at the time that the homeowner applies for the Capital Upgrade Credit and calculated based on the formula price that the Homeowner could receive if selling their home at the time the Capital Upgrade Credit is requested.

- a. In cases where giving 100% credit for Capital Upgrades would make the house unaffordable to income eligible households using the maximum affordability standards set forth in the Ground Lease, then the Capital Upgrade Credit will be reduced to the point where “affordability” is achieved, as defined in subsection (b) below.
- b. Affordability means that a household meeting income limits defined for the property (80% of Area Median Income [as published by HUD] for most properties, but 120% AMI in some cases) will pay no more than 35% of its gross monthly income for the monthly payment of mortgage (principal and interest), taxes, insurance and ground lease fee, repair reserve fee and Ferncliff Village Association dues. Calculations for a 2 bedroom house will be based on a household size of 2 persons and calculations for a 3 bedroom house will be based on a household size of 4 persons. Calculations for interest rate will equal the prevailing rate available to HRB buyers at the time of application for the Capital Credit Upgrade, with a minimum rate of 6%.

Capital Systems Upgrades and Credit Schedule:

Type of Capital Systems Upgrades	Depreciation
Replacing existing ductless heat pump with unit of higher efficiency. Credit will be based on difference in price for a unit that matches current unit and the upgraded unit.	10 years
Replacing water heater with one of higher efficiency. Credit will be based on difference in price for a unit that matches current unit and the upgraded unit.	10 years
Solar Photo Voltaic Grid system	10 years
Replacing carpet with solid hardwood floor or engineered floor that extends into tongue and groove.	20 years
Replacing carpet with other durable floor, (marmoleum, tile, etc..)	5 years
Installment of Home Security System	10 years