

**City Of Oakland
Community and Economic Development Agency**

Affordable Homeownership Development Program

September, 2009

The City/Agency's Affordable Homeownership Development funding program (AHDP) is structured to keep its new homeownership projects permanently affordable. Under the terms of the City/Agency funding for this program and by State law, all assisted units must be sold to qualified first-time homebuyers at an affordable housing cost. This requires that the assisted unit be sold at an affordable sales price. Each time the assisted unit is sold, it must be sold at not more than the affordable sales price, which changes over time based primarily on changes in the maximum income levels and interest rates.

To help accomplish this, the City/Agency may provide a forgivable development loan to the developer to be used for a portion of the development costs. Generally, for projects where all units are affordable, the Agency will forgive and convert to a grant that portion of its development loan equal to the difference between the total development cost and the total net sales proceeds. This is intended to allow the developer to sell the assisted units to initial qualified buyers at affordable sales prices yet still cover costs and receive a reasonable profit. In the case where some units will be sold at market-rate, the amount of the development loan that may be forgiven will be determined on a project by project basis.

Because the prices are limited to no more than the affordable sales prices for the target households, silent second mortgages will no longer be provided by the Agency. When the homeowner sells the unit to the next qualified buyer, the sales price will be limited by the affordable housing cost for that particular unit (based on the interest rate and maximum income limit at that time of sale). At resale, the homeowner will be able to receive the equity from their original investment and any repayment of their first mortgage plus all the appreciation up to the current maximum Affordable Sales Price (ASP), thereby assuring them a limited rate of return on their equity.

Average Affordability 100% of AMI: Based on current Council/Agency policy, though households with incomes up to 120% may be assisted, the average affordability level for all assisted units in a project must not exceed 100% of AMI. For example, in a 20 unit project, 6 units would be sold to households at 120% of AMI, 6 units would be sold to households at 80% of AMI, and 8 would be sold to households at 100% of AMI.

DETERMINING THE AFFORDABLE HOUSING COST FOR AN ASSISTED UNIT

The Affordable Housing Cost (AHC) is the maximum monthly housing cost that a household in a certain income group should pay. The AHC is set as a maximum percentage of a certain income adjusted for family size for the appropriate unit. The maximum income limit for AHDP units is 120% AMI as set by the Oakland City Council.

For simplicity in marketing and sales, it is advised to have as few different target income groups in a development as feasible. The general formula to determine the Affordable Housing Cost is:

- Households earning less than 80% AMI:

One-twelfth of 30% of ten percent less than the target income limit, adjusted for family size. Example: the AHC for units restricted to households earning up to 60% AMI is: 1/12 of 30% of 50% AMI adjusted for family size for the appropriate unit.

- Households earning 81% AMI-120% AMI:

One-twelfth of 35% of ten percent less than the target income limit, adjusted for family size. Example: the AHC for units restricted to households earning up to 90% AMI is: 1/12 of 35% of 80% AMI adjusted for family size for the appropriate unit.

Housing costs used in the State Redevelopment law definition of Affordable Housing Cost include all of the following associated with owning a housing unit: principal and interest payments on a mortgage loan; private mortgage insurance; property taxes and assessments; fire and casualty (hazard) insurance covering replacement value of improvements; a reasonable allowance for utilities (using the Oakland Housing Authority's Utility Allowance as a base) and for unit maintenance; and homeowner's/maintenance association fees (if applicable).

PRESUMED HOUSEHOLD SIZE FOR CALCULATING AFFORDABLE HOUSING COST

For purposes of calculating the AHC, "family size appropriate to the unit" means a household of:

- a) one person in the case of a studio unit;
- b) two people in the case of a one-bedroom unit;
- c) three people in the case of a two-bedroom unit;
- d) four people in the case of a three-bedroom unit; and
- e) five people in the case of a four-bedroom unit.

Although the ASP is based on a specific target income level, the income of the particular homebuyer must not exceed the required maximum income for the assisted units (as very low, low or moderate income units as approved by Council) based on their actual income and household size.

DETERMINING THE AFFORDABLE SALES PRICE FOR AN ASSISTED UNIT

The maximum Affordable Sales Price (ASP) is the total sales price at which a typical household with an income equal to a specified percentage of the area median income, adjusted for the household size appropriate for the unit size, pays no more than an Affordable Housing Cost per month.

Affordable sales prices are based on the target income level (for example, 80% AMI for units restricted to Low Income households), not the income of the actual homebuyer. The household size adjustment that is used in determining the income limit for purposes of setting the maximum affordable sales price is based on the number of bedrooms in the unit, not the size of the specific homebuyer's household. This allows sales prices to be set in advance of identifying a specific buyer. This also ensures that the homes are affordable to a range of low or moderate income households.

ASSUMPTIONS AND INDICES

The City/Agency will use the following indices for each of the assumptions used in calculating both the Affordable Housing Cost and the Maximum Affordable Sales Price for the initial sales and for any future sales, irrespective of the actual terms of any sale:

- The downpayment percentage will be assumed at 5% of the sales price.
- The interest rate on the first mortgage loan will be assumed to be equal to the Federal National Mortgage Association's (FNMA) Required Net Yield Rate for 30-year fixed rate mortgages (60-day Actual/Actual), as of the date and time of day specified by City, rounded to the nearest one-eighth of one percentage point (0.125%). If the FNMA required net yield rate cannot be determined, the assumed interest rate shall be set by City using a comparable rate intended to approximate typical rates available to borrowers for 30-year conventional fixed-rate mortgages.
- The term of the first mortgage loan will be assumed, and required, to be 30 years, fixed.
- The effective property tax rate, including a special assessments factor, will be assumed to be 1.32% of the sales price.
- Private mortgage insurance (PMI) will be assumed to equal to 0.77% of the first mortgage amount and will be required to be factored into the sales price calculation.
- Utility costs shall be based on the current Utility Allowances prepared by the Oakland Housing Authority (OHA). Units built after 2006 are expected to be in compliance with the current State Title 24 energy efficient requirements.
- Maintenance reserve will assume a 5% annual increase.
- Hazard and casualty insurance payments will be assumed at .35% of the sales price.
- The homeowner's association/maintenance association fees will be the amount charged by the homeowners association for the Project.

The City/Agency reserves the right to adjust any of these assumptions to reflect changing conditions or industry standards.

When the developer is ready to start marketing the units (generally 60 days prior to start of construction), they should contact the City's Housing Development staff and request the updated Affordable Sales Prices which would reflect the most current income limit and interest rate for the project.

When the existing homeowner is ready to sell their unit, they must provide written notice to the City's Housing and Community Development staff of their intention to sell their unit at least 60 days prior to listing the unit for sale. They must request that the City/Agency provide a written statement of the current Affordable Housing Cost and Affordable Sales Price for their particular unit as well as whether City/Agency will exercise its (first) right to purchase.

LONG TERM AFFORDABILITY AND FAIR RATES OF RETURN

The City will ensure that the buyers of the units will receive a fair rate of return and, at the same time, will assure that the units are sold only to qualified homebuyers, at not more than the maximum Affordable Sales Price, over the life of the project (essentially in perpetuity). This is realized by the following:

Long Term Affordability. The loan agreement with the developer will contain appropriate pass-through enforcement provisions (an Affordability Agreement recorded at close of the development loan and a Declaration of Resale and Occupancy Restrictions and Grant of First Right of Purchase [“the Declaration”] and Performance Deed of Trust [Deed of Trust] recorded prior to sale of each unit to an initial buyer) for the City to ensure compliance on the part of both the developer and the homeowners. A recorded Assumption Agreement executed by the initial homebuyer and each subsequent homebuyer, and referencing the Declaration and the Deed of Trust, will ensure that houses are resold only to qualified low or moderate income households at an affordable sales price each time the unit is sold. Except in extraordinary circumstances, the City/Agency will not subordinate affordability covenants, including the Declaration and the Deed of Trust.

Fair Rate of Return. When the owner sells the unit to the new buyer, the seller will be able to receive the net sales proceeds from their original investment plus all of the appreciation up to the ASP, thereby assuring them a fair rate of return. The seller receives a fair, though very limited, rate of return on their investment, much like that from the sale of a unit in a limited equity cooperative. The ASP will fluctuate based on both the maximum income limit for the unit and the interest rate at the time of sale, not based on market forces. Because the sales prices are always going to be affordable, no additional City mortgage assistance will be needed or provided to keep the units permanently affordable.

Affordable Sales Price Using 2011 Projected Income Limits

1 Bedroom Units with 2 Person Households (HH)					
		<i>Maximum Household Income</i>			
		<i>60% AMI</i>	<i>80% AMI</i>	<i>100% AMI</i>	<i>120% AMI</i>
	Maximum HH Income Amount projected for 2011	\$45,450	\$56,250	\$75,800	\$90,900
1	Income Limit for Calculating Affordable Housing Cost (AHC)	50% AMI	70% AMI	90% AMI	110% AMI
	Income Amount for Calculating AHC	\$37,850	\$53,024	\$68,212	\$83,370
2	Downpayment assumed	5.00%	5.00%	5.00%	5.00%
3	Interest Rate	6.50%	6.50%	6.50%	6.50%
4	Principal & Interest per month	\$471	\$766	\$1,283	\$1,627
5	Utility Allowance per month	\$116	\$116	\$116	\$116
6	Maintenance Reserve per month	\$25	\$25	\$25	\$25
7	Homeownership Dues per month	\$200	\$200	\$200	\$200
8	Other required housing costs per month	\$134	\$218	\$365	\$463
9	Affordable Housing Cost per month	\$946	\$1,326	\$1,990	\$2,432
10	Maximum Affordable Sales Price (ASP)	\$78,459	\$127,634	\$213,697	\$271,008

LINE:

1. This income limit is based on a **2 person household**. The Affordable Housing Cost (AHC) is ___% of ___%AMI as listed here for the different target income levels (ie. 30% of 50%AMI for a target income level of 60%AMI or 35% of 90%AMI for a target income level of 100%AMI) using a **2 person household for the 1 bedroom unit** in this estimate..
2. Downpayment, for calculating the Affordable Sales Price (ASP), is set at **5% of the sales price**. Buyers must provide a minimum of 3% of the sales price from their own resources. They may provide more than a 5% downpayment but that will not affect the downpayment percentage used in calculating the ASP.
3. Interest rate is set higher than the current rate for this estimate. However, it will be necessary to recalculate the AHC and the maximum Affordable Sales Price at the completion of construction of the units to reflect both the interest rate and the income limit at the time of completion.
4. This is the amount of income available to support a fixed rate, 30 year, fully amortized first mortgage which is required for this program. No ARM of any type is acceptable.
5. We have used the **OHA's 2008 Utility Allowance for apartments (as developments tend to be attached units)**, taking the average of the allowances for all Gas and all Electric utilities, for a **1 bedroom unit**. We are assuming that these allowances already factor in the use of energy efficiency elements in the construction of the project and meeting the new Title 24 requirements.
6. A reasonable maintenance reserve is required, by State law, to be included in the calculation of the AHC. We have chosen **\$25/mo** to start with.
7. If Homeowners' or Maintenance Association (HOA) dues are required by the developer, that amount would be calculated in to the AHC and thus would reduce the ASP. For this estimate, we are using **\$200/mo**. and include the Hazard Insurance in that figure.
8. Housing costs used in the State Redevelopment law definition of Affordable Housing Cost include all of the following associated with owning a housing unit:
 - i. principal and interest payments on a mortgage loan;
 - ii. private mortgage insurance;
 - iii. property taxes and assessments;
 - iv. fire and casualty (hazard) insurance covering replacement value of improvements;
 - v. a reasonable allowance for utilities (using the OHA Utility Allowance as a base);
 - vi. a reasonable allowance for unit maintenance; and
 - vii. homeowner's/maintenance association fees (if applicable).

Affordable Sales Price Using 2011 Projected Income Limits

2 Bedroom Units with 3 Person Households (HH)					
		<i>Maximum Household Income</i>			
		<i>60% AMI</i>	<i>80% AMI</i>	<i>100% AMI</i>	<i>120% AMI</i>
	Maximum HH Income Amount projected for 2011	\$51,200	\$63,250	\$85,250	\$102,300
1	Income Limit for Calculating Affordable Housing Cost (AHC)	50% AMI	70% AMI	90% AMI	110% AMI
	Income Amount for Calculating AHC	\$42,650	\$59,707	\$76,738	\$90,430
2	Downpayment assumed	5.00%	5.00%	5.00%	5.00%
3	Interest Rate	6.50%	6.50%	6.50%	6.50%
4	Principal & Interest per month	\$552	\$884	\$1,464	\$1,775
5	Utility Allowance per month	\$132	\$132	\$132	\$132
6	Maintenance Reserve per month	\$25	\$25	\$25	\$25
7	Homeownership Dues per month	\$200	\$200	\$200	\$200
8	Other required housing costs per month	\$157	\$252	\$417	\$505
9	Affordable Housing Cost per month	\$1,066	\$1,493	\$2,238	\$2,638
10	Maximum Affordable Sales Price (ASP)	\$91,884	\$147,163	\$243,803	\$295,571

LINE:

1. This income limit is based on a **3 person household**. The Affordable Housing Cost (AHC) is ___% of ___%AMI as listed here for the different target income levels (ie. 30% of 50%AMI for a target income level of 60%AMI or 35% of 90%AMI for a target income level of 100%AMI) using a **3 person household for the 2 bedroom unit** in this estimate..
2. Downpayment, for calculating the Affordable Sales Price (ASP), is set at **5% of the sales price**. Buyers must provide a minimum of 3% of the sales price from their own resources. They may provide more than a 5% downpayment but that will not affect the downpayment percentage used in calculating the ASP.
3. Interest rate is set higher than the current rate for this estimate. However, it will be necessary to recalculate the AHC and the maximum Affordable Sales Price at the completion of construction of the units to reflect both the interest rate and the income limit at the time of completion.
4. This is the amount of income available to support a fixed rate, 30 year, fully amortized first mortgage which is required for this program. No ARM of any type is acceptable.
5. We have used the **OHA's 2008 Utility Allowance for apartments (as developments tend to be attached units)**, taking the average of the allowances for all Gas and all Electric utilities, for a **2 bedroom unit**. We are assuming that these allowances already factor in the use of energy efficiency elements in the construction of the project and meeting the new Title 24 requirements.
6. A reasonable maintenance reserve is required, by State law, to be included in the calculation of the AHC. We have chosen **\$25/mo** to start with.
7. If Homeowners' or Maintenance Association (HOA) dues are required by the developer, that amount would be calculated in to the AHC and thus would reduce the ASP. For this estimate, we are using **\$200/mo.** and include the Hazard Insurance in that figure.
8. Housing costs used in the State Redevelopment law definition of Affordable Housing Cost include all of the following associated with owning a housing unit:
 - i. principal and interest payments on a mortgage loan;
 - ii. private mortgage insurance;
 - iii. property taxes and assessments;
 - iv. fire and casualty (hazard) insurance covering replacement value of improvements;
 - v. a reasonable allowance for utilities (using the OHA Utility Allowance as a base);
 - vi. a reasonable allowance for unit maintenance; and
 - vii. homeowner's/maintenance association fees (if applicable).

Affordable Sales Price Using 2011 Projected Income Limits

3 Bedroom Units with 4 Person Households (HH)					
		<i>Maximum Household Income</i>			
		<i>60% AMI</i>	<i>80% AMI</i>	<i>100% AMI</i>	<i>120% AMI</i>
	Maximum HH Income Amount projected for 2011	\$56,850	\$70,300	\$94,750	\$113,700
1	Income Limit for Calculating Affordable Housing Cost (AHC)	50% AMI	70% AMI	90% AMI	110% AMI
	Income Amount for Calculating AHC	\$47,350	\$66,317	\$85,265	\$100,478
2	Downpayment assumed	5.00%	5.00%	5.00%	5.00%
3	Interest Rate	6.50%	6.50%	6.50%	6.50%
4	Principal & Interest per month	\$630	\$999	\$1,644	\$2,033
5	Utility Allowance per month	\$149	\$149	\$149	\$149
6	Maintenance Reserve per month	\$25	\$25	\$25	\$25
7	Homeownership Dues per month	\$200	\$200	\$200	\$200
8	Other required housing costs per month	\$179	\$284	\$468	\$523
9	Affordable Housing Cost per month	\$1,184	\$1,658	\$2,487	\$2,931
10	Maximum Affordable Sales Price (ASP)	\$104,939	\$166,406	\$273,864	\$306,075

LINE:

1. This income limit is based on a **4 person household**. The Affordable Housing Cost (AHC) is ___% of ___%AMI as listed here for the different target income levels (ie. 30% of 50%AMI for a target income level of 60%AMI or 35% of 90%AMI for a target income level of 100%AMI) using a **4 person household for the 3bedroom unit** in this estimate..
2. Downpayment, for calculating the Affordable Sales Price (ASP), is set at **5% of the sales price**. Buyers must provide a minimum of 3% of the sales price from their own resources. They may provide more than a 5% downpayment but that will not affect the downpayment percentage used in calculating the ASP.
3. Interest rate is set higher than the current rate for this estimate. However, it will be necessary to recalculate the AHC and the maximum Affordable Sales Price at the completion of construction of the units to reflect both the interest rate and the income limit at the time of completion.
4. This is the amount of income available to support a fixed rate, 30 year, fully amortized first mortgage which is required for this program. No ARM of any type is acceptable.
5. We have used the **OHA's 2008 Utility Allowance for apartments (as developments tend to be attached units)**, taking the average of the allowances for all Gas and all Electric utilities, for a **3 bedroom unit**. We are assuming that these allowances already factor in the use of energy efficiency elements in the construction of the project and meeting the new Title 24 requirements.
6. A reasonable maintenance reserve is required, by State law, to be included in the calculation of the AHC. We have chosen **\$25/mo** to start with.
7. If Homeowners' or Maintenance Association dues are required by the developer, that amount would be calculated in to the AHC and thus would reduce the ASP. For this estimate, we are using **\$200/mo.** and include the Hazard Insurance in that figure.
8. Housing costs used in the State Redevelopment law definition of Affordable Housing Cost include all of the following associated with owning a housing unit:
 - i. principal and interest payments on a mortgage loan;
 - ii. private mortgage insurance;
 - iii. property taxes and assessments;
 - iv. fire and casualty (hazard) insurance covering replacement value of improvements;
 - v. a reasonable allowance for utilities (using the OHA Utility Allowance as a base);
 - vi. a reasonable allowance for unit maintenance; and
 - vii. homeowner's/maintenance association fees (if applicable).

Affordable Sales Price Using 2011 Projected Income Limits

4 Bedroom Units with 5 Person Households (HH)					
		<i>Maximum Household Income</i>			
		<i>60% AMI</i>	<i>80% AMI</i>	<i>100% AMI</i>	<i>120% AMI</i>
	Maximum HH Income Amount projected for 2011	\$61,350	\$75,900	\$102,300	\$122,750
1	Income Limit for Calculating Affordable Housing Cost (AHC)	50% AMI	70% AMI	90% AMI	110% AMI
	Income Amount for Calculating AHC	\$51,150	\$71,590	\$92,086	\$108,516
2	Downpayment assumed	5.00%	5.00%	5.00%	5.00%
3	Interest Rate	6.50%	6.50%	6.50%	6.50%
4	Principal & Interest per month	\$677	\$1,075	\$1,772	\$2,192
5	Utility Allowance per month	\$184	\$184	\$184	\$184
6	Maintenance Reserve per month	\$25	\$25	\$25	\$25
7	Homeownership Dues per month	\$200	\$200	\$200	\$200
8	Other required housing costs per month	\$193	\$306	\$505	\$564
9	Affordable Housing Cost per month	\$1,279	\$1,790	\$2,686	\$3,165
10	Maximum Affordable Sales Price (ASP)	\$112,779	\$179,017	\$295,178	\$330,011

LINE:

1. This income limit is based on a **5 person household**. The Affordable Housing Cost (AHC) is ___% of ___%AMI as listed here for the different target income levels (ie. 30% of 50%AMI for a target income level of 60%AMI or 35% of 90%AMI for a target income level of 100%AMI) using a **5 person household for the 4 bedroom unit** in this estimate..
2. Downpayment, for calculating the Affordable Sales Price (ASP), is set at **5% of the sales price**. Buyers must provide a minimum of 3% of the sales price from their own resources. They may provide more than a 5% downpayment but that will not affect the downpayment percentage used in calculating the ASP.
3. Interest rate is set higher than the current rate for this estimate. However, it will be necessary to recalculate the AHC and the maximum Affordable Sales Price at the completion of construction of the units to reflect both the interest rate and the income limit at the time of completion.
4. This is the amount of income available to support a fixed rate, 30 year, fully amortized first mortgage which is required for this program. No ARM of any type is acceptable.
5. We have used the **OHA's 2008 Utility Allowance for apartments (as developments tend to be attached units)**, taking the average of the allowances for all Gas and all Electric utilities, for a **4 bedroom unit**. We are assuming that these allowances already factor in the use of energy efficiency elements in the construction of the project and meeting the new Title 24 requirements.
6. A reasonable maintenance reserve is required, by State law, to be included in the calculation of the AHC. We have chosen **\$25/mo** to start with.
7. If Homeowners' or Maintenance Association dues are required by the developer, that amount would be calculated in to the AHC and thus would reduce the ASP. For this estimate, we are using **\$200/mo.** and include the Hazard Insurance in that figure.
8. Housing costs used in the State Redevelopment law definition of Affordable Housing Cost include all of the following associated with owning a housing unit:
 - i. principal and interest payments on a mortgage loan;
 - ii. private mortgage insurance;
 - iii. property taxes and assessments;
 - iv. fire and casualty (hazard) insurance covering replacement value of improvements;
 - v. a reasonable allowance for utilities (using the OHA Utility Allowance as a base);
 - vi. a reasonable allowance for unit maintenance; and
 - vii. homeowner's/maintenance association fees (if applicable).