Guidelines for the Sale of Inclusionary Housing

Under the Mixed Income Housing Ordinance, City Code 17.190
Adopted April 29, 2004

Section I: Developer Procedures

Applying the Inclusionary Ordinance to For-sale Housing

Any residential project with a single family component subject to the Mixed Income Housing Ordinance ("Ordinance") can choose to provide a portion or totality of its inclusionary obligation through the construction and sale of for-sale housing. For-sale inclusionary housing can be located on-site, or, in the case of an exclusively single family subdivision, on an approved off-site location. For-sale inclusionary housing can be single family detached or attached units, in accordance with appropriate zoning and planning regulations.

Requirements for Approval

Site and Building Design

The location, size, and design of the proposed for-sale inclusionary homes must be approved by the City Planning Department and the Sacramento Housing and Redevelopment Agency ("SHRA") prior to approval of the Inclusionary Housing Plan ("Plan") in which they are designated. If, at time of approval of the Plan, individual home lots have not yet been determined, those lots must be approved by the City Planning Department and SHRA prior to the recordation of the final lot subdivision map and the Inclusionary Housing Agreement ("Agreement"). These changes will be incorporated into the Plan as an amendment to be reviewed and approved by the Planning Director and SHRA in accordance with the Ordinance.

Location

To the greatest extent possible, the inclusionary homes shall be dispersed among the market rate homes within the subdivision, and shall have the same exterior appearance as the market rate homes. This provision can be waived with the approval of the City Planning Department if the inclusionary homes are planned and approved as a unique portion of the overall subdivision, for example, as half-plex units on corner lots, or as a small cluster of attached homes.

Entitlement Process

Linkages to Market Rate Homes

If a Developer has an approved Inclusionary Housing Plan ("Plan") that includes on site for-sale inclusionary housing in accordance with section 17.190.110 of the City Code, the proposed for-sale inclusionary units will proceed through the entitlement process concurrently with the for-sale market rate housing. If the for-sale inclusionary housing is located on an off-site location, the Plan will indicate a series of linkages for the on-site and off-site homes that will determine the concurrency of entitlements.

Recordation Process

At recordation of the final map for the site with the inclusionary homes, an Inclusionary Housing Agreement will be recorded against the entire residential subdivision, and/or other property in accordance with the linkages identified in the Plan. This Agreement will include designation of those lots identified by the Developer and approved by SHRA as the inclusionary for-sale home lots. The Agreement will run with the entire residential subdivision until all linkages as required in the Plan have been met. At the time these linkages have been met, the Agreement can be released from the market rate homes.

At the time of sale to the first homebuyer of an inclusionary home, a Regulatory Agreement will be recorded on the individual inclusionary lot, and the Inclusionary Agreement will be released. This Regulatory Agreement will specify the affordability level at which the home must be sold and occupied, and the provisions for re-sale and release of the restrictions. The Regulatory Agreement will run with the inclusionary unit for the entire term of affordability (minimum of 30 years), or until sale to a non-income eligible buyer.

Section II: Initial Sales Procedures

Note: In general, the sale of the Inclusionary home will be processed in accordance with requirements of the particular builder.

Calculation of Sales Prices

SHRA will assist the Developer in determining the maximum sales price allowable for the particular income category that the home is intended for.

Maximum sales prices shall be based on a family paying no more than 35% of its total gross monthly income on all housing expenses as outlined below. The sales price shall be calculated based on an occupancy standard of one person per bedroom, plus one additional person (for example, a three bedroom home will be priced based on the income of a four person family). Income limits used shall be those published by the U.S. Department of Housing and Urban Development (HUD) for the Sacramento Metropolitan Statistical Area, and will be updated annually and published by SHRA.

For purposes of determining a sales price, housing expenses include, but are not limited to, the following:

- Principal and interest (PI)
- Mortgage insurance
- Hazard insurance
- Flood insurance (where applicable)
- Property taxes
- Mello Roos or other assessments (where applicable)
- Homeowners Association dues (where applicable)

For example, a sales price based on an income limit of $50,000 (gross) a year, will allow no more than $1,458 a month ($50,000 ÷ 12 × 35%) to be spent on *total* housing expenses. Non PI costs will be backed out of this allowance to determine maximum supportable debt. Calculations for principal and interest, taxes, and insurance will be based on current market conditions and rates on similar mortgage products, and will be provided by SHRA at time of the pricing of the homes. A five percent down payment and 30 year mortgage will be assumed.

SHRA will provide the builder maximum allowable sales prices in writing, and those prices shall be effective for six months, after which they will be re-calculated if the unit is not sold based on current market conditions and income limits. An example of estimated maximum sales prices and assumptions is attached as Exhibit A to the guidelines.

Selection of Buyer

Homebuyer Education

SHRA will work with the homebuilder on the selection of the potential inclusionary homebuyers. In general, the inclusionary homes will be sold through a lottery process administered by the executive director of SHRA or her designee. To be considered for participation in a lottery, it is required that all homebuyers interested in purchasing an inclusionary home complete or be enrolled in a homebuyer education class from the Sacramento Home Loan Counseling Center or Sacramento Neighborhood Housing Services or another approved education service. Within two weeks of being selected for the lottery, the potential buyer must show proof of graduation from a program within the past year, or proof of enrollment in a program to be taken within two months of the lottery.

Lottery Process

SHRA will prepare a "pre qualification" application which is required for participation in the lottery. This application will request 1) general information on the applicant's income and household characteristics, 2) proof of enrollment in a homebuyer education classe (see above), and 3) and a lender pre-qualification letter. The application will indicate a deadline for submittal of the application, and the date that the lottery will be held. The lottery will be held within two weeks of the deadline for submittal. All applications that report an income and other information sufficient to meet the requirements of the program will be included in the lottery. SHRA pre-qualification is for income eligibility purposes only.

Income Qualification

Once the lottery is held, the selected buyer(s) will have two weeks to provide to SHRA full documentation of the reported income of all household members eighteen years and older. These documents include, but are not limited to:

- Schedule of Household Members and Income;
- Three years federal tax returns for all income earners who will be living in the home;
- Three years W-2s for all income earners who will be living in the home;
- The four most recent, consecutive pay stubs for all income earners who will be living in the home;
- Verification of other non-wage income, including child support, social security, disability, retirement/pension payments, annuity payments, unemployment, public assistance, alimony or regular gifts for all household members; and
- Proof of completion of or attendance in a homebuyer education class.

Minimum Household Size

The minimum size of the family purchasing the Inclusionary home shall be limited by the bedroom size of the house. The following are the minimum family sizes for various house sizes:

House Size	Minimum Family Size
2 Bedroom	1 person
3 Bedroom	1 person
4 Bedroom	2 persons
5 Bedroom	3 persons
6 Bedroom	4 persons

Family size refers to all persons, related or not, living in the home, including all children under the age of 18.

First Time Homebuyer Status

To be considered for an Inclusionary home, the potential buyer must be a first time homebuyer, as defined in the Mixed Income Ordinance. Per the City Code section 17.190.020 "First-time homebuyer" means that neither the purchaser nor spouse has owned a home during the past three years, or that the purchaser meets at least one of the following criteria:

1. The purchaser is a displaced homemaker, defined as a person who has not worked full-time for a number of years, worked primarily without remuneration to care for the home and family, is unemployed or underemployed, is experiencing difficulty in obtaining or upgrading employment, and, while a homemaker, owned a home with a previous spouse;

2. The purchaser is single (unmarried or legally separated), has one or more minor children of whom purchaser has custody, and, while previously married, owned a home with a previous spouse; or

3. The purchaser owns or owned as a principal residence during the past three years, a dwelling unit which structure is not permanently affixed to a permanent foundation in accordance with the city code, or is not and cannot be brought into compliance with city code for less than the cost of replacing the structure.

First Mortgage Requirements

It is the buyer's responsibility to secure financing from an institutional lender. The first mortgage must be an arm-lengths transaction, and must be a fully amortized loan with no balloon payments. No loans with non occupant co-mortgagers or co-signers will be allowed. SHRA will require a copy of the loan approval from the lender as proof of availability of financing.

Regulatory Agreement

At time of closing of escrow, the buyer will be required to sign a Regulatory Agreement that will be recorded against the property. This Agreement will detail the income and occupancy standards, as well as the re-sale and recapture provisions.

The inclusionary homes shall be occupied by the owners, and shall not be rented at any time. Provisions for occupancy of the homes shall be included in the Regulatory Agreement.

Section III: Procedures for Resale of Inclusionary Homes

Re-sale provisions

When the original homebuyer decides to sell the inclusionary home prior to the end of the regulatory period, the homebuyer must notify SHRA of this intent. The homeowner is not to initiate discussions with a real estate agent or broker until SHRA has been notified. SHRA will have 120 days after receipt of this notification to purchase the home or assist the seller to find a new, income eligible homebuyer. The home will then be re-sold at the new affordable price as established by SHRA for the appropriate income level. The seller will receive the difference between the new affordable sales price ("adjusted resale price") and original affordable sales price. Should the new adjusted resale price be less than the original affordable sales price, or should the new adjusted resale price be insufficient to ensure that the seller receives his or her original investment in the home as well as reasonable and customary closing costs, SHRA will allow the new adjusted resale price to be increased to cover these costs. Should this occur, SHRA will ensure that the purchase price for the new buyer does not exceed the buyer's affordability level by providing an interest free, subordinate loan to the new buyer, with no payments due until time of sale.

Subsequent Re-sales

These same provisions shall apply to subsequent income eligible owners for sales to additional income qualified buyers. A new income eligible buyer purchasing the inclusionary home before the end of the regulatory term shall re-start that regulatory term again with year one. In each instance that a re-sale occurs to an income eligible homebuyer, the Regulatory Agreement shall be amended to reflect the renewal of the affordability term, and the new timetable for calculation of appreciation benefits upon recapture.

Recapture Provisions

If, at the time of re-sale of the inclusionary home, an income eligible buyer cannot be secured through SHRA as described above, the seller can offer the home for sale on the open market. In this instance, the allowable sales price will be based on an appraisal approved and paid for by SHRA. At time of sale, the seller will receive appreciation equal to the difference between the new adjusted sales price as established by SHRA plus reasonable and customary closing costs and the last affordable sales price. SHRA will receive the remaining appreciation in the home as recaptured funds.

Funds recaptured by SHRA upon a sale to a non income eligible buyer will be used to fund additional inclusionary housing units under the Ordinance. If an inclusionary home is sold to a non income eligible buyer before the end of the regulatory period in accordance with the above provisions, the Regulatory Agreement shall be released from the property.

Home Improvements

Homeowners of Inclusionary units are encouraged to maintain their home and make necessary capital improvements. To encourage this investment, SHRA may allow certain costs attributed to these improvements to be added to the affordable sales price in the form of a subordinate, interest free, no payment note to the new buyer. At the time of sale, the homebuyer must request that these costs be included in the new affordable sales price calculation and *must* provide dated receipts indicating that the improvements have been made.

Improvement costs that may be considered in the calculation of the new affordable sales price include items such as roof repair, installation of rear landscaping, replacement of worn out flooring with comparable material, interior and exterior painting, etc. Cosmetic addition or upgrades of existing amenities will not be considered in the calculation (i.e. installation of granite countertops, replacement of linoleum flooring with hard wood, installation of swimming pools, etc.).

The allowable cost of improvements may be reduced based on remaining useful life of the improvement at time of sale. All receipts for improvements ***must*** be presented for the cost to be considered in the calculation of new affordable sales price.

Transfer of Title

Any transfer of title of an inclusionary unit before the end of the regulatory period not in compliance with this section shall prompt the recapture provisions, unless that party receiving title is income eligible and qualifies themselves with SHRA. Addition of a party to the deed will trigger recapture unless the additional party is related to the owner through marriage or registered domestic partnership.

Refinancing

In order to assure that the integrity of the affordability provisions is maintained, the Agency must assure that the Regulatory Agreement securing the affordability of the property has priority over all liens on the inclusionary unit, other than purchase money liens securing the purchase of restricted units. Any loans or advances on loans secured by the inclusionary unit, other than the purchase money loans, shall be deemed subordinate in all respects to the Individual Regulatory Agreement, including, without limitation, Agency's recapture rights as provided above. Owner's ability to refinance and to obtain funds from refinancing of the Restricted Unit is limited.

Section IV: Administration

These guidelines are meant to accompany the Mixed Income Housing Ordinance, and may be amended from time to time with the recommendation of the Executive Director of SHRA and the Planning Director of the City of Sacramento and upon approval by the Sacramento Housing and Redevelopment Commission. Should there be a conflict between documents, the Individual Regulatory Agreement recorded on the property shall prevail. Interested parties may request to be put on a mailing list to be maintained by SHRA to receive notice of any changes to the guidelines.

Documents referred to in these guidelines shall be prepared by SHRA legal staff. SHRA will annually update the attached estimated sales price with the yearly income limits, but these prices shall only be considered estimates, since market conditions will affect the calculations.

ESTIMATED MAXIMUM SALES PRICES AND RENTAL RATES – CITY INCLUSIONARY HOMES

Last Revised March 9, 2006

	FAMILY SIZE - 2006							
	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
Median Income	**$ 45,800**	**$ 52,300**	**$ 58,900**	**$ 65,400**	**$ 70,600**	**$ 75,900**	**$ 81,100**	**$ 86,300**
50% AMI (Very Low Income)	$ 22,900	$ 26,150	$ 29,450	$ 32,700	$ 35,300	$ 37,950	$ 40,550	$ 43,150
80% AMI (Low Income)	$ 36,640	$ 41,840	$ 47,120	$ 52,320	$ 56,480	$ 60,720	$ 64,880	$ 69,040

ASSUMPTIONS			
Interest Rate	6.50%	Taxes	1.2500%
Loan Term	30	Insurance	0.004
Down Payment %	5%	Monthly Mello Roos	$ -
Monthly HOA Dues	$ -	Flood Insurance	0.003
Mortgage Insurance	0.005	Income % to Housing	35%

	SALES PRICES AT 50% AMI (Very Low Income)				
Bedroom Count	**1 BR**	**2 BR**	**3 BR**	**4 BR**	**5 BR**
Maximum Sales Price	**$ 95,036**	**$ 107,029**	**$ 118,840**	**$ 128,289**	**$ 137,920**
Down Payment	$ 4,752	$ 5,351	$ 5,942	$ 6,414	$ 6,896
Loan Amount Needed	$ 90,284	$ 101,677	$ 112,898	$ 121,875	$ 131,024
Payment (P+I)	$ (571)	$ (643)	$ (714)	$ (770)	$ (828)
Taxes	$ (99)	$ (111)	$ (124)	$ (134)	$ (144)
Insurance	$ (32)	$ (36)	$ (40)	$ (43)	$ (46)
Flood Insurance	$ (24)	$ (27)	$ (30)	$ (32)	$ (34)
Mortgage Insurance	$ (38)	$ (42)	$ (47)	$ (51)	$ (55)
Mello Roos	$ -	$ -	$ -	$ -	$ -
HOA Dues	$ -	$ -	$ -	$ -	$ -
Monthly Payment	$ (763)	$ (859)	$ (954)	$ (1,030)	$ (1,107)
Annual Income Required	$26,150	$29,450	$32,700	$35,300	$37,950
%age of Median Income	50%	50%	50%	50%	50%

	SALES PRICES AT 80% AMI (Low Income)				
	1 BR	**2 BR**	**3 BR**	**4 BR**	**5 BR**
Maximum Sales Price	**$ 152,057**	**$ 171,246**	**$ 190,144**	**$ 205,263**	**$ 220,672**
Down Payment	$ 7,603	$ 8,562	$ 9,507	$ 10,263	$ 11,034
Loan Amount Needed	$ 144,455	$ 162,684	$ 180,637	$ 195,000	$ 209,639
Payment (P+I)	$ (913)	$ (1,028)	$ (1,142)	$ (1,233)	$ (1,325)
Taxes	$ (158)	$ (178)	$ (198)	$ (214)	$ (230)
Insurance	$ (51)	$ (57)	$ (63)	$ (68)	$ (74)
Flood Insurance	$ (38)	$ (43)	$ (48)	$ (51)	$ (55)
Mortgage Insurance	$ (60)	$ (68)	$ (75)	$ (81)	$ (87)
Mello Roos	$ -	$ -	$ -	$ -	$ -
HOA Dues	$ -	$ -	$ -	$ -	$ -
Monthly Payment	$ (1,220)	$ (1,374)	$ (1,526)	$ (1,647)	$ (1,771)
Annual Income Required	$41,840	$47,120	$52,320	$56,480	$60,720
%age of Median Income	80%	80%	80%	80%	80%

	RENTAL RATES AT 50% AMI (Very Low Income)				
	1 BR	**2 BR**	**3 BR**	**4 BR**	**5 BR**
Gross Rental Rate	$ 654	$ 736	$ 818	$ 883	$ 949
Approximate Utility Payment	$ (52)	$ (70)	$ (89)	$ (173)	$ (198)
Net Rental Rate	**$ 602**	**$ 666**	**$ 729**	**$ 710**	**$ 751**

	RENTAL RATES AT 80% AMI (Low Income)				
	1 BR	**2 BR**	**3 BR**	**4 BR**	**5 BR**
Gross Rental Rate	$ 1,046	$ 1,178	$ 1,308	$ 1,412	$ 1,518
Approximate Utility Payment	$ (52)	$ (70)	$ (89)	$ (173)	$ (198)
Net Rental Rate	**$ 994**	**$ 1,108**	**$ 1,219**	**$ 1,239**	**$ 1,320**

* Income limits are published annually by the US Department of Housing and Urban Development in approximately February or March
* Assumptions on interest rates, taxes, etc. are based on current market conditions and may change for a particular project
* Rental rates are based on a project with no government subsidy. Financing of the project under a government program (I.e. tax credits, MRB, MHP) will impose different rental rates.