SHRA

INVESTING IN COMMUNITIES

Answers to Commonly-Asked Questions About Inclusionary Housing and the Inclusionary Housing Regulatory Agreement

The City of Sacramento adopted the Mixed Income Housing Ordinance on October 3, 2000, establishing what is commonly called an inclusionary housing program. The purpose of the inclusionary housing program is to assist the City achieve a diverse and balanced community with housing available for households of all income levels.

This disclosure will answer some common questions about inclusionary housing and the inclusionary housing regulatory agreement.

Q: Where can inclusionary housing be found?

A: The Mixed Income Housing Ordinance applies to residential development of ten units or more in new growth areas of the City of Sacramento. A map of these areas may be viewed at http://www.shra.org/LinkClick.aspx?fileticket=8Fn0UVCTMwY%3d&tabid=143&mid=418
New growth areas also include major redevelopment areas, including the Railyards Special Planning District and Curtis Park West Railyards; and any future annexation areas of the City of Sacramento.

Q: How many inclusionary housing units are available in a project?

A: The ordinance allows a developer to meet the inclusionary housing obligation for a development with either single family or multifamily, ownership (for-sale) or rental housing. Five percent (5%) of all residential units in a new development project must be affordable to and occupied by low income households. Ten percent (10%) of all residential units in a new development project must be affordable to and occupied by very low income households. A real estate development project with 80 residential units planned would provide 8 units for very low income households and 4 units for low income households. Sixty-eight (68) units would be market rate. Some smaller developments (five acres or less) may be allowed to provide all of their units at the low-income level, when the units are on-site and for-sale.

Q: Where are inclusionary housing units located within a development project?

A: For the most part, the for-sale inclusionary homes will be spread throughout the development project. The Ordinance also provides that the design of the for-sale inclusionary homes be compatible with the design of the total project in terms of exterior appearance, including materials and finished quality.

Q: What does low and very low income mean?

A: A very low income household is one whose gross annual income does not exceed fifty percent (50%) of the Sacramento area median income, adjusted for family size. A low income household is one whose gross annual income does not exceed eighty percent (80%) of the Sacramento area media income, adjusted for family size. The United States Department of Housing and Urban Development (HUD) annually provides the income data used.

Q. How is the affordable sales price for on-site inclusionary housing determined?

A: The affordable sales price is the price at which low income and very low income households, as defined above, will pay no more than 35% of its total gross monthly income on housing expenses. Housing expenses will include payments for principal and interest on the mortgage loan, property taxes, hazard insurance, mortgage insurance, and if applicable, payments for flood insurance, Mello Roos or other assessments, and Homeowners Association dues. 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. Calculations for principal and interest, taxes and insurance will be based on current market conditions and rates. A five percent (5%) down payment and 30 year mortgage will be assumed. Sacramento Housing and Redevelopment Agency will assist the developer in determining the maximum sales price allowable for applicable income categories.

As an example, the sales price for a low income three bedroom unit would be based on $60,900.00, which is the 80% of area median for a household size of four. The sales price established could allow no more than $1,776 per month be spent on housing expenses described above. ($60,900 divided by 12, multiplied by 35%)

It should be noted that maximum sales prices are based on a particular size family having a 5% down payment and making exactly 80% of median income for their family size. If a household makes less than 80% of median income, they may be eligible according to the income limit, but they may not always be able to secure a mortgage sufficient to purchase the home at the maximum sales price.

Q: What is a Regulatory Agreement?

A: A regulatory agreement is a legal document recorded by SHRA against the individual inclusionary lot, as required by the Mixed Income Housing Ordinance. Additionally, the regulatory agreement is secured by a Deed of Trust, which provides assurance that the homeowner cannot sell the home without notification to SHRA. The purpose of the regulatory agreement is to keep the home affordable for a minimum of 30 years. The regulatory agreement specifies that the home must be sold at an affordable price and purchased by another low or very low income household. The regulatory agreement will remain recorded against the inclusionary unit for the entire term of affordability (a minimum of 30 years), or until sale to a non-income eligible buyer and payment of recapture.

Q: How does the Regulatory Agreement affect me?

A: The regulatory agreement requires that the owner reside in the home and specifies how the owner can transfer, sell or refinance the home. It also requires that the owner maintain the home in good condition.

Q: Does the Regulatory Agreement allow me to refinance?

A: The owner’s ability to refinance is limited, and the owner’s ability to refinance to pull cash out is restricted. The regulatory agreement must have priority over all liens on the inclusionary home, other than purchase money liens securing the initial purchase of the property by owner and approved by Agency. The regulatory agreement allows the owner to refinance its purchase money loans and SHRA will subordinate the regulatory agreement to a refinance loan which does not exceed the owner’s original purchase money loans. The owner must obtain Agency approval prior to refinancing or obtaining any new loans to be secured against the property. Please contact the Agency Portfolio Management Department at (916) 440-1393 prior to initiating any refinance transaction.

Q: Can I make improvements to my home?

A: Yes. The regulatory agreement requires that the owner maintain the property in good condition and make necessary improvements. SHRA may allow certain improvement costs to be considered in the calculation of the new affordable sales price at resale. Improvement costs that may be considered include items such as roof repair, installation of rear landscaping, interior and exterior painting, replacement of worn out flooring with comparable material, etc. Cosmetic additions or upgrades will not be considered (for example, swimming pools, granite countertops, hardwood flooring). The owner must request the improvement costs be included in the new affordable sales price calculation, and must provide dated receipts indicating that the improvements were been made. SHRA will have sole discretion in determining the amount of credit for such improvements.

Q. What if I want to sell my home?

A. If an owner decides to sell an inclusionary home before the end of the regulatory period (30 years), written notice of this intent must be provided to SHRA. This notice is included as part of the regulatory agreement. SHRA will have 120 days after receiving notice to either assist the owner in finding a new, income eligible homebuyer to purchase the home at the new affordable price, or to decide if it will purchase the home form the owner at the new affordable price.

If an income eligible homebuyer is found, the home will be re-sold at the new affordable price as established by SHRA for the appropriate income level. The owner will receive the difference between the new affordable sales price and the original affordable sales price.

The new income eligible homebuyer will execute a new 30 year regulatory agreement.

Hypothetical example of a restricted resale:

A	Original affordable price (2007)	$185,000
B	New affordable price (2014)	$215,000
C	Owner appreciation (B – A)	$30,000

Owner appreciation may be increased by improvement costs approved by SHRA (please refer to previous section). However, in the sale escrow, all original purchase money liens must be paid, as well as customary closing costs. Owner appreciation may be reduced by these amounts.

Q. What if I do not sell my home at an affordable sales price or if an income eligible homebuyer cannot be found?

A. In the event of an unqualified sale, recapture under the provisions of the regulatory agreement shall be paid to the Agency. The inclusionary home can be offered for sale on the open market; however, the owner shall only receive appreciation equal to the difference between the new affordable sales price and the original affordable sales price. The recapture paid to SHRA will be the remaining appreciation funds from the net sales proceeds.

Upon repayment of recapture, the regulatory agreement recorded against the inclusionary unit will be terminated.

Hypothetical example of an unqualified sale:

A	Original affordable price (2007)	$185,000
B	New affordable price (2014)	$215,000
C	Owner appreciation (B – A)	$30,000
D	Market Resale Price	$295,000
E	Estimated Closing Costs (8%)	$23,600
F	Net Sales Proceeds (D – E – A)	$86,400
G	Recapture to Agency (F – C)	$56,400

As stated earlier, owner appreciation may be increased by improvement costs approved by SHRA.

Q. Is recapture only owed in the event of an unqualified sale?

A. No, recapture would also be owed to SHRA when:

- The owner completes any unauthorized transfer of title to the property within the 30 year regulatory period which is not within the resale procedures previously described. Owner may add a spouse or registered domestic partner to title and not be required to pay recapture.
- The owner changes the use of the home from a single family owner occupied dwelling, including, but not limited to, rental of the home.

Q. Can I rent my home?

A. No. Renting the home is a change in use that is not permitted. This will be treated as an unqualified sale with recapture due the Agency.

Q. How will the property taxes on my inclusionary home be assessed?

A. The property taxes on an inclusionary home should be based on the affordable sales price. However, ensure that there is not a re-assessment of the home to market value, the owner needs to notify the County Assessor's office by letter that the home has a resale restriction and provide a copy of the regulatory agreement.

For more information

If you have additional questions regarding inclusionary housing or the inclusionary housing regulatory agreement, contact us at (916) 440-1393.

I/We have read and acknowledge receipt of “Answers to Commonly-Asked Questions About Inclusionary Housing and the Inclusionary Housing Regulatory Agreement”.

______________________________	______________________________
Applicant	Applicant

Date: ___________________________

PLEASE SIGN AND RETURN