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Methodology for Determining Maximum Affordable Homeownership Unit Sales Price

The following steps explain the methodology used to determine the maximum affordable homeownership unit sales price for newly constructed units. 2023 Update. Per the latest Ordinance Language "Affordable Ownership Cost" is determined using the following approach:

"Affordable Ownership Cost" means the projected monthly housing cost during the **first calendar year** of a household's occupancy, as determined by the city, including mortgage principal and interest payments, mortgage insurance fees, if any, property taxes, reasonable allowances for utilities and property maintenance and repairs, homeowner's insurance, and homeowners' association dues, if applicable, that in the aggregate does not exceed thirty five percent (35%) of the applicable income limit for a particular for-sale inclusionary unit. In calculating Affordable Ownership Cost, mortgage payments will be calculated using a thirty (30) year term, an interest rate equal to the Freddie Mac ten (10) year average interest rate as published in the Freddie Mac Primary Mortgage Market Survey **or equivalent source and will assume a three percent (3%) downpayment. Note: If the current interest rate is higher than 10-year average; the current interest rate will be used.**

Step 1 – Determine Income Level and Number of Bedrooms

Consult with a Land Use Attorney and/or City Planner for assistance determining the number, type, and distribution of units required for your project based on the requirements of the City's Zoning. Once the level of affordability and bedroom count for a specific unit has been determined, advance to Step 2.

Step 2 – Determine the Household Income Limit

Household Income Limits as published annually by the [State of California](#) shall be the basis by which affordable ownership costs on new for-sale affordable housing units are determined. These household income limits include:

Moderate Income
Approximately 120% of County Area Median Income (AMI)

For the purposes of this section, the number of bedrooms in a unit is used to determine the maximum household (HH) size which relates to the maximum income limit on a bedroom count + 1 basis. Example: For the purpose of calculating price, a 3-bedroom townhome unit shall be assumed to have a household size of 4 (3+1). A studio which has no bedrooms shall be assumed to have a household size of 1 (0+1).

Step 3 – Determine Maximum Affordable Housing Payment (AHP)

Based on the maximum income limit determined in Step 2, an affordable homeownership percentage shall be assessed to determine the maximum affordable housing payment. Note: Moderate-Income Households AHP is determined using a formula that involves a percentage of the published Area Media Income (AMI).



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Step 3 – Determine Maximum Affordable Housing Payment (AHP) Continued

Moderate Income
1/12th of 35% of 110% of AMI

Example: For a 3-bedroom Moderate-Income townhome unit, the applicable household size would be 4. For 2023, the Median Income for a 4-Person Household in Santa Clara County was \$181,300. You'd take 110% of that number or \$199,430, divide it by 12 to get to \$16,619.17 in maximum monthly income that can go toward the payment. 35% of \$16,619.17 would equal **\$5,816.71**, and that would be your maximum affordable housing payment that needs to cover all mortgage and non-mortgage housing expenses.

Step 4 - Account for Non-Mortgage Payment Assumptions

Subtracted from the Affordable Housing Payment (AHP) shall be a non-mortgage housing expense assumption of 30% of the Affordable Housing Payment plus the [Published County Utility Allowance](#) for the current year applicable to the project,. Utility allowances for units shall assume electric air and water heating (in accordance with CC Ordinance 2260), the gas utility rate for cooking appliances, and include all water, sewer, trash collection, range/microwave, and refrigerator allowances in the total based on the applicable unit type. Further, a Homeowner Association (HOA) fee of **\$284.87** shall be assumed as an additional non-mortgage factor regardless if the project has no HOA fee and/or a lower/higher HOA fee. This fee is based on a study of HOA fees indicated in unit closing costs based on the prior three years. As such, the current dollar amount is based on HOA fees included in the closing price of BMR units.

Affordable Housing Payment (AHP)	30% of AHP plus Utility Allowance ¹ plus HOA Fee	Remainder of AHP available for Mortgage Payment
\$5,816.71	\$30% of AHP (\$1,745.01) + Utilities (\$363) + HOA Fee Assumption (\$284.87) = Total of \$2,392.88	\$3,423.83

Example: For a 3-bedroom Moderate-income townhouse with a maximum affordable housing payment of \$5,406.04 would be reduced by \$2,392.88. This results in the remainder of Affordable Housing Payment (AHP) available for Mortgage Payment or \$3,423.83

Step 5 – Determine Mortgage Payment Assumption & Maximum Sales Price

The remaining AHP available for Mortgage Payment shall be used to calculate the Maximum Affordable Sales Price. Regardless of the term limit, money down, and interest rate secured by an individual, the maximum sales unit sales price for the unit 'pool' shall be determined based on the maximum mortgage amount for buyer using a 30-year fixed mortgage with an interest rate based on the **10-year average rate** as published online ([Freddie Mac Published Interest Rate](#)) or the available published rate as of the date of the Inclusionary Agreement – **whichever is higher**. Further, for the purposes of this calculation, no money down, points, origination fees etc. shall be assumed as being necessary to secure the average annual interest rate.

¹ Note: No cost basis is assumed for maintenance. Deferred maintenance to be addressed the time of sale.
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Remaining AHP available for Mortgage for a Moderate-Income Household	10-Year Avg. or Current Freddie Mac Rate, whichever is higher	Maximum Affordable Sales Price for a Moderate-Income Household
\$3,423.83	7%	\$514,626.93

Example: Based on a remaining AHP of \$3,423.83 for mortgage payment and assuming a 30-year loan at a 7% interest rate, the maximum loan of \$514,626.93.

Step 6 – Add the Down Payment Assumption

A 3% downpayment assumption is added to the base maximum price.

Base Max Price	3% Down Payment	Total Sales Price
\$514,626.93	\$15,438.81	\$530,065.74 Rounded to \$530,066.00

Step 7 – Account for Transaction Fee

A 3% Transaction Fee to the Program Administrator is assessed to cover the cost of managing the applicant pool, process and underwrite applications for eligibility, and as a contribution toward the annual compliance labor associated with the restriction agreement (i.e. 45-year restriction on resale).

Maximum Affordable Sales Price	Transaction Fee	Net to Developer
\$530,066.00	\$15,901.98	\$514,164.02

Pricing Applicability

All pricing will be attached to the Inclusionary Agreement. When new income limits are published by the State of California while the project is still active, the legacy pricing will still apply to any units where permits have been pulled. Pending units can be updated with the new pricing. As a policy, if units are actively being marketed to buyers in a Drawing (e.g., Lottery for Buyers) pricing cannot be increased.