

## **Appendix 11: AFFORDABLE HOUSING TERMS & CRITERIA**

**(Provided by the Southampton Housing Authority March 18, 2013)**

### **What is “Affordable Housing”?**

There are a number of definitions of affordable housing as federal and state programs offer various criteria. For example, HUD generally identifies units as affordable if gross rent (including costs of utilities borne by the tenant) is no more than 30% of a household’s net adjusted income (with a small deduction for each dependent, for child care, for extraordinary medical expenses, etc.) or if the carrying costs of purchasing a home (mortgage, homeowners association fees, property taxes and insurance) is not more than typically 30% of net adjusted income. If households are paying more than these amounts, they are described as experiencing housing affordability problems; and if they are paying 50% or more for housing, they have severe housing affordability problems and heavy cost burdens.

Affordable housing can also be defined according to percentages of median income for the area. Housing subsidy programs can be targeted to particular income ranges depending upon programmatic goals. Extremely low-income housing is directed to households with incomes at or below 30% of area median income as defined by the U.S. Department of Housing and Urban Development (\$24,550 for a family of four for the Southampton area) and very low-income is defined as households with incomes less than 50% of area median income (\$40,950 for a family of four). Low- and moderate-income generally refers to the range between 51% and 80% of area median income (\$64,400 for a family of four at the 80% level).

### **What is “Affordable Housing” in Massachusetts?**

The state established legislation for promoting affordable housing under Chapter 774 of the Acts of 1969, creating the Massachusetts Comprehensive Permit Law (Massachusetts General Laws Chapter 40B). Chapter 774 of the Acts of 1969 established the Massachusetts Comprehensive Permit Law (Massachusetts General Laws Chapter 40B) to facilitate the development of affordable housing for low- and moderate-income households (defined as any housing subsidized by the federal or state government under any program to assist in the construction of low- or moderate-income housing for those earning less than 80% of median income) by permitting the state to override local zoning and other restrictions in communities where less than 10% of the year-round housing is subsidized for low- and moderate-income households. This legislation allows developers to override local zoning if the project meets certain requirements and the municipality has less than 10% of its year-round housing stock defined as affordable under 40B. In calculating a community’s progress toward the 10% Chapter 40B goal, the state counts a housing unit as affordable if it is created by state or federal programs that support low- and moderate-income households earning at or below 80% of area median income under.

#### **MGL CHAPTER 40B: WHAT IS AFFORDABLE HOUSING?**

1. Must be part of a “subsidized” development built by a public agency, non-profit or limited dividend corporation.
2. At least 25% of the units in the development must be income restricted to households with incomes at or below 80% of area median income and have rents or sales prices restricted to affordable levels. Restrictions must run at least 15 years for housing rehabilitation and at least 30 years for new construction.
3. Development must be subject to a regulatory agreement and monitored by a public agency or non-profit organization.
4. Project sponsors must meet affirmative marketing requirements.

## FY 2013 Income Limits Summary: Southampton

### Southampton town, Massachusetts

FY 2013 Income Limit Area	Median Income	FY 2013 Income Limit Category	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
Southampton town	\$66,100	Extremely Low (30%) Income Limits	\$17,200	\$19,650	\$22,100	<b>\$24,550</b>	\$26,550	\$28,500	\$30,450	\$32,450
		Very Low (50%) Income Limits	\$28,700	\$32,800	\$36,900	<b>\$40,950</b>	\$44,250	\$47,550	\$50,800	\$54,100
		Low (80%) Income Limits	\$45,100	\$51,550	\$58,000	<b>\$64,400</b>	\$69,600	\$74,750	\$79,900	\$85,050

Source: [http://www.huduser.org/portal/datasets/il/il13/index\\_mfi.html](http://www.huduser.org/portal/datasets/il/il13/index_mfi.html)

### 2008 Southampton Household Income Distribution by Income Category and Age Group

Income Category	Total Households	< 25 Years	25 - 34	35-64	65 - 74	75 +
\$0 to \$14,999	4%	19%	6%	3%	6%	11%
\$15,000 - \$24,999	7%	19%	9%	4%	11%	16%
\$25,000 - \$34,999	8%	26%	11%	6%	13%	12%
\$35,000 - \$49,999	8%	4%	11%	7%	10%	10%
\$50,000 - \$74,999	19%	7%	24%	19%	17%	15%
\$75,000 - \$99,999	23%	11%	20%	25%	18%	14%
\$100,000 - \$124,999	16%	15%	9%	19%	14%	12%
\$125,000 - \$149,999	5%	0%	3%	6%	5%	3%
\$150,000 +	9%	0%	5%	11%	7%	7%
<i>Totals</i>	<i>1,989</i>	<i>27</i>	<i>299</i>	<i>1,318</i>	<i>168</i>	<i>177</i>

Source: Southampton Housing Needs Assessment Plan. The complete report is available on the Housing Authority page on the town's website:

[http://www.town.southampton.ma.us/dbcc/files/Southampton%20Housing%20Plan\\_FINAL\\_APPENDIX.pdf](http://www.town.southampton.ma.us/dbcc/files/Southampton%20Housing%20Plan_FINAL_APPENDIX.pdf)

The above table clearly shows that the majority of households age 65 and over fall under the town's median household income of \$66,100. Twenty-two percent of elderly households have household incomes that are less than \$25,000 a year and 35% have household incomes that are less than \$35,000. It is likely that many low-income elderly households own their own homes outright (no mortgage) and as such are cash poor but equity rich. Rising energy prices, insurance costs, and taxes as well as health-care related costs may drive elderly homeowners from their homes. Again, it will be important for Southampton to have the types of appropriate housing and services to accommodate the needs of the elderly population. The majority of households headed by a householder between the ages of 25 and 34

also fall under the town's median income. In this case it is unlikely that these households own their homes outright and thus are potentially cost burdened each month by housing-related costs.

### **What is Planned Production?**

The Massachusetts Department of Housing and Community Development (DHCD) is administering the Planned Production Program in accordance with regulations that enable cities and towns to do the following:

- Prepare and adopt an affordable housing plan that demonstrates production of an increase of .75% over one year or 1.5% over two-years of its year-round housing stock eligible for inclusion in the Subsidized Housing Inventory (17 units and 35 units, respectively, for Southamptn ) for approval by DHCD.
- Request certification of compliance with the plan by demonstrating production of at least the number of units indicated above.
- Through local ZBA action, deny a comprehensive permit application during the period of certified compliance, which is 12 months following submission of the production documentation to DHCD, or 24 months if the 1.5% threshold is met.

Massachusetts General Law Chapter 40B, 760 CMR 31.07 (1)(i). For the plan to be acceptable to DHCD it must meet the following requirements:

- Include a comprehensive housing needs assessment to establish the context for municipal action.
- Address a mix of housing consistent with identified needs and market conditions.
- Include a description of use restrictions.
- Address at least one of the following strategies including -
  - Identification of geographic areas in which land use regulations will be modified to accomplish affordable housing production goals.
  - Identification of specific sites on which comprehensive permit applications will be encouraged.
  - Preferable characteristics of residential development such as infill housing, clustered areas, and compact development.
  - Municipally owned parcels for which development proposals will be sought

Southampton Housing Needs Assessment was approved by the DHCD March 2012. The complete report is available on the Housing Authority page on the town's website. Link:

[http://www.town.southampton.ma.us/dbcc/files/Southampton%20Housing%20Plan\\_FINAL\\_APPENDIX.pdf](http://www.town.southampton.ma.us/dbcc/files/Southampton%20Housing%20Plan_FINAL_APPENDIX.pdf)

Southampton currently has 44 units defined as affordable under Chapter 40B, part of its Subsidized Housing Inventory, representing 1.9% of the town's year-round housing stock (2300).

## What would be the maximum Sale Price (or Rent charged) for an affordable housing unit in Southampton?

### Maximum Incomes and Selling Prices

1) Median Incomes are based on 2004 HUD Estimates for Metropolitan Statistical Areas (MSAs). Income limits are adjusted annually to reflect the HUD figures in effect at that time. Affordable unit applicants must meet the program income limits in effect at the time they apply for a unit and must continue to meet the program income limits in effect at the time of all subsequent reviews until they purchase a unit. (for background on income limits visit: [http://www.huduser.org/portal/datasets/il/il13/index\\_mfi.html](http://www.huduser.org/portal/datasets/il/il13/index_mfi.html))

2) Maximum sales prices are determined by creating a marketing window so that buyers within a range of incomes may afford to qualify for a mortgage for an Affordable Housing unit despite possible interest rate fluctuations. Project sponsors are required to provide a window of affordability for households with incomes between 70% and 80% of the listed area (MSA) median income. The maximum sales prices are based upon principal, interest, property tax, and insurance payments, with an assumption of a 5% down payment. DHCD encourages project sponsors to work with local banks to provide competitive end loan financing to potential first time home buyers.

3) The "affordable" sales price will be determined based on low and moderate income households spending no more than 30% of their income on housing costs. Housing costs include all payments made towards the principal and interest of any mortgages placed on the unit, property taxes, and insurance, as well as a homeownership, neighborhood association or condominium fee.

4) Affordable unit rents are determined by creating a "window" of affordability based on rents equal to 30% of 70% of median income. Rents must include heat and utilities or a utility allowance.

5) The initial maximum sale prices for a low and moderate income homeownership unit should be set such that it is affordable to a household whose income is between 70% to 80% of area median income, using the method set forth below. For purposes of this calculation, household income applicable to a particular unit will be based on certain assumptions about the size of the family most likely to occupy the unit. For example, in order to calculate the sales price of a 2-bedroom unit, the project sponsor should begin by determining what is affordable to a family earning 70% of area median income for a three-person household. For a 3-bedroom unit, the calculation should assume a four-person household, and for a 4-bedroom unit, a five-person household.

#### Example 1:

Southampton MSA 4-person household	Annual Income	Monthly Income	30% of Monthly Income
70% of Area Median Income	\$55,350	\$4,496	\$1,409
80% of Area Median Income	\$64,400	\$5,367	\$1,610

**Example 2:**

(Examples of calculating maximum sales prices for a 4-person household in the Southampton MSA)

Mortgage Terms: 30-year fixed term at 4%. Acceptable interest rates should not be lower than .25% above the latest prevailing rate for a 30-year fixed rate mortgage as indicated by Freddie Mac's Weekly Mortgage Market Survey)

	<b>Example # 1</b>	<b>Example # 2</b>
House Price	\$197,000.00	\$221,000
Down Payment 5%	\$9,850.00	\$11,050
Mortgage Amount	\$187,150.00	\$209,950
Principal and Interest	\$893.48	\$1,002.33
Real Estate Taxes (1.4 %)	\$229.83	\$257.83
Private Mortgage Insurance (.78%)	\$121.65	\$136.47
Homeowners Insurance	\$ 63.00	\$69.70
Association/Condo Fee	\$100.00	\$140.00
<b>TOTAL Monthly Housing Costs</b>	<b>\$1,407.96</b>	<b>\$1606.33</b>

The Department encourages communities to set prices below the 80% of AMI to ensure a "window" of affordability for prospective buyers.