






DIRECTOR’S RULE 2021-01

Program: Mandatory Housing Affordability	Page: 1 of 5	Supersedes: Housing Director’s Rule 01-2018						
Subject: Method for calculating maximum initial sale price and resale prices; other requirements for owner- occupied affordable homes	Publication date: October 11, 2021	Effective date: October 11, 2021						
Code and Section Reference: Seattle Municipal Code (SMC) 23.58C.050.C.7	Type of Rule: Code interpretation	<table border="0"> <tr> <td style="text-align: right;">Approved</td> <td style="text-align: right;">Date</td> </tr> <tr> <td style="text-align: right;"></td> <td style="text-align: right;">10/11/2021</td> </tr> <tr> <td colspan="2" style="text-align: right;">Emily Alvarado, Director, OH</td> </tr> </table>	Approved	Date		10/11/2021	Emily Alvarado, Director, OH	
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PURPOSE

This Director’s Rule 2021-01 (“DR 2021-01”) establishes the Office of Housing’s method for calculating maximum initial sale prices for owner-occupied Mandatory Housing Affordability (“MHA”) units provided through the performance option according to SMC 23.58C.050 (“Affordable Homes”). It also identifies legal agreements and annual stewardship fee requirements for Affordable Homes.

BACKGROUND

SMC Chapter 23.58C outlines requirements for MHA-Residential, an affordable housing incentive program authorized by RCW 36.70A.540. MHA requirements for residential development that includes new units, as defined in SMC 23.58C.020, apply only where provisions of the zone refer to SMC Chapter 23.58C, or through the terms of a contract rezone according to SMC 23.34.004.

Each Affordable Home provided through the performance option must satisfy applicable requirements of SMC 23.58C.050. SMC 23.58C.050.C.7 requires the Director of the Office of Housing to establish by rule:

(1) The method for calculating the maximum initial sale price for an Affordable Home, including standard assumptions for determining upfront housing costs, including the down payment, as well as ongoing housing costs of the owner household, which include mortgage principal and interest payments, insurance payments, homeowner or condominium association dues and assessments, and real estate taxes and other charges included in county tax billings;

(2) The method for calculating the maximum resale price for an Affordable Home;

- (3) Specific requirements for documents ensuring ongoing affordability of Affordable Homes; and
- (4) An annual stewardship fee, payable by the owner household of each Affordable Home, for the purposes of monitoring compliance with the requirements according to SMC 23.58C.050.

RULE

Method for OH Calculation of Maximum Initial Sale Prices

The Office of Housing periodically calculates and publishes a maximum initial sales price for each type and size of Affordable Home.

The Office of Housing's calculation of maximum initial sale prices reflects the following assumptions per SMC 23.58C.050:

- The maximum total annual income of an eligible household at the time of purchase is 80% of area median income ("AMI");
- Owner household's housing costs for the Affordable Home as a percentage of total annual income is presumed to be 35% of 65% of AMI;¹and
- Presumed average household sizes for Affordable Homes:
 - 0 bedroom: 1 person
 - 1 bedroom: 1.5 people
 - 2 bedrooms: 3 people
 - 3 bedrooms: 4.5 people
 - 4 bedrooms: 5 people.

OH follows the steps outlined below when calculating the maximum initial sale price for each type and size of Affordable Home:

Step 1: Calculate the maximum monthly payment

- The maximum monthly payment is the maximum total annual income (65% of AMI, adjusted by the presumed average household size) multiplied by 35% and divided by 12.

Step 2: Calculate the preliminary monthly principal and interest payment, mortgage amount and down payment amount

- The preliminary monthly principal and interest payment equals the maximum monthly payment minus monthly amounts for the stewardship fee according to this DR 2021-01 and estimated condominium or homeowner association dues, if applicable.
- The preliminary mortgage amount shall be determined using the preliminary monthly principal and interest payment, and assuming the following:
 - Prime interest mortgage rate according to the Wall Street Journal plus 1.25; and

¹ In order to allow for equity growth for individual owner households while maintaining affordability for future owners, the percentage of total annual income for purposes of calculating the maximum affordable initial sale price is 65% of AMI (SMC 23.58C.050.7.a).

- Mortgage term of 360 months (only conventional 30-year fixed rate mortgage products, loans with similar terms, or products of comparable cost in cases where an eligible household's religious beliefs prohibit the use of interest-bearing loans are permissible, all as approved by OH).
- The preliminary down payment amount equals ten percent of the preliminary mortgage amount.

Step 3: Calculate the preliminary sale price

- The preliminary sale price equals the preliminary mortgage amount plus the preliminary down payment amount.

Step 4: Calculate estimated taxes/fees and insurance costs based on the preliminary sale price

- Estimated amounts for King County taxes and fees, homeowners insurance, and private mortgage insurance are calculated by multiplying the respective percentage for each cost, if applicable, by the preliminary sale price.

Step 5: Calculate the maximum monthly principal and interest payment and mortgage amount

- The maximum monthly principal and interest payment equals the maximum monthly payment minus monthly amounts for the following:
 - King County taxes and fees as estimated above;
 - Homeowner's insurance as estimated above;
 - Private mortgage insurance as estimated above, if applicable;
 - Stewardship fee; and
 - Condominium or homeowner association dues, if applicable.
- The maximum mortgage amount shall be determined using the maximum monthly principal and interest payment, and assuming the following:
 - Prime interest mortgage rate according to the Wall Street Journal plus 1.25; and
 - Mortgage term of 360 months (only conventional 30-year fixed rate mortgage products, loans with similar terms, or products of comparable cost in cases where an eligible household's religious beliefs prohibit the use of interest-bearing loans are permissible, all as approved by OH).

Step 6: Calculate the Maximum Initial Sale Price

- The Maximum Initial Sale Price equals the maximum mortgage amount plus a down payment amount equivalent to ten percent of the maximum mortgage amount. Round Maximum Initial Sale Price up to the nearest \$1,000.

Required Legal Documents to Ensure Long-Term Affordability

MHA Performance Agreement between City and Property Owner/Developer for the Project

As a condition to issuance of the building permit that, which if phased, includes the structural frame for the structure, an MHA Performance Agreement between the City and the property owner/developer, in accordance with SMC Chapter 23.58B or SMC Chapter 25.58C, as applicable, must be executed and recorded against all parcels as legally defined for purposes of the building permit. The MHA

Performance Agreement obligates the property owner/developer to complete the sale of every Affordable Home, as designated according to an SDCI-approved plan set, at an affordable sales price in accordance with MHA requirements.

MHA Resale Agreement between City and Homebuyer or OH-Approved Third-Party Entity for each Affordable Home

For initial sale of each Affordable Home, a substitute and binding MHA Resale Agreement including restrictive covenants encumbering the Affordable Home, which may be a ground lease, must be executed and recorded, all as approved by the Office of Housing. Once the initial sale of every Affordable Home is closed, the City will release the original MHA Performance Agreement and encumbrances on the development property therein.

MHA Resale Agreements for Affordable Units shall be on OH-approved forms and are subject to OH approval and, at minimum, must include:

- 75-year term;
- Owner household occupancy requirement unless the Director of Housing approves a limited short-term exception;
- Restrictions on refinancing, debt limits, sale or transfer of the Affordable Home;
- The Maximum Resale Price, which allows modest growth in homeowner equity while maintaining long-term affordability of future buyers and must be the lesser of either:
 - The appraised value of the Affordable Home disregarding encumbrances and any leasehold interests imposed by MHA Resale Agreement; or
 - The initial sale price paid by the Eligible Household plus the appreciation amount, which will be between 1% and 3% of the initial sale price compounded annually, plus an amount for eligible capital improvements, minus an amount for deferred maintenance.
- Stewardship responsibilities;
- Owner household notice to the third-party stewardship organization, as approved by the Office of Housing, prior to resale of the Affordable Home;
- Limits on credit for capital improvements
- Requirements for basic maintenance, inspections, and compliance procedures;
- Minimum insurance requirements;
- Compliance documentation requirements; and
- An annual stewardship fee, as calculated according to this DR 2021-01, payable by the owner household.

Stewardship Fee

As a condition of purchase of an Affordable Home (initial or resale), the owner household must agree to pay the Office of Housing, or the third-party stewardship organization approved by the Office of Housing, an annual stewardship fee. The annual stewardship fee is payable in 12 equal monthly payments (rounded to the nearest dollar). The fee covers the cost of calculating the maximum resale prices, marketing to eligible households, screening and selecting eligible households to purchase Affordable Homes available for resale, and other compliance monitoring costs.

Per SMC 23.58C.050.C.7, the annual stewardship fee automatically adjusts in proportion to the annual change for the previous calendar year (January 1 through December 31) in the Consumer Price Index, All Urban Consumers, Seattle-Tacoma-Bellevue, WA, All Items (1982-1984 = 100), as determined by the U.S. Department of Labor, Bureau of Labor Statistics or successor index. As of the publication date for this DR 2021-01, the annual stewardship fee for compliance monitoring is \$900.00 (\$75.00 per month).