

# City of Huntington Beach

## Affordable Ownership Housing Program FAQ's

### 1. Why does the City have an affordable housing program?

Huntington Beach, like many coastal communities, has a shortage of housing that is affordable to middle-income working families. The City's affordable housing program, therefore, reflects the community's desire as well as its legal obligation to address this issue.

Affordable homes are provided so that families can afford to own a home in Huntington Beach who might otherwise be unable to live in this community. These homes have covenants recorded on legal title to ensure their continued affordability for a defined period. For the duration of this affordability period, the City governs the use and transfer of these homes. Affordable homes are required to be owner occupied, are not investment properties, and are not intended to generate market-rate equity growth for their owners.

### 2. How is the maximum affordable price of my home determined?

The maximum price of your home is calculated according to affordable housing covenants recorded on legal title to the property. Homeowners should understand that the affordable price is likely lower than the fair market value of the home.

Generally, the City's formula provides a maximum price that an income-eligible buyer can afford to pay. This formula assumes that homebuyers will spend up to 35% of their income towards housing costs. Using current income limits, the City projects this amount over a 30-year mortgage term at the current market interest rate to determine the amount a prospective buyer can afford to borrow. The maximum home price is then calculated by adding an assumed 10% down payment to the prospective buyer's anticipated mortgage amount.

Because interest rates change monthly, homeowners should understand that the affordable price of two similar homes could be different if the owners request their price calculations on different days. (The interest rate used by the City is the mortgage interest rate based on the Fannie Mae Required Net Yields, 30-year, 90-day yield, as published at [TheFinancials.com](http://TheFinancials.com).) Another formula variable that affects maximum prices are the income limits; income limits are adjusted annually by HCD. To have your price calculated, you should submit a Request for Sales Price Calculation form to the office of Business Development. This application is available at [www.hbbiz.com](http://www.hbbiz.com) or by calling (714) 536-5470. Maximum price calculations are valid for 90 days, and homeowners are entitled to one free calculation per year by the City.

### 3. Does the real estate market have anything to do with the price of my home?

The maximum price formula establishes the amount that an income-eligible buyer can afford to pay. The formula does not include general real estate market variables, except to the extent that income and interest rates, which are variables in the City's formula, also affect the general real estate market.

On occasion, the fair market value of a home may be less than the calculated maximum affordable price. In such instances, the real estate market establishes the value of the home, not the City's calculated price.

### 4. How did the builder set the initial sales price of my home and of the other homes in my community?

Every new community built in the City is required to go through a planning approval process, and it is during this process that initial sales prices for affordable homes are established. These prices are calculated prior to completion of the units so that builders can forecast sales revenues as well as construction costs, both of which are necessary for obtaining construction financing.

While the City establishes a maximum sales price, some builders sell early phase units for less than the maximum and make adjustments for units in more desirable locations or with upgrades. The City reviews and approves all sales to ensure that prices do not exceed the maximum affordable price, with the pricing differentials under the cap being entirely the builder's decision.

#### 5. Can maximum affordable prices decrease?

The City's maximum price formula does allow prices to increase and decrease as formula variables change. Prices have increased in the past due to a combination of growing program income limits and shrinking market interest rates. Homeowners should understand, however, that program income limits are not guaranteed to always increase and that future interest rate increases as well as decreases are speculative.

The City's intent is to establish maximum prices that are affordable to income-eligible buyers. If over time, a potential buyer's purchasing ability improves due to favorable market conditions, the formula allows prices to rise. Equally, prices can decline to reflect changes in market conditions.

#### 6. Is there a cap on the amount that prices can increase or decrease?

There is no upper or lower limit on the maximum affordable prices calculated by the City. As experienced in mid-2003 when interest rates reached their lowest level in decades, prices of affordable homes increased dramatically. It is similarly possible for interest rates to rise considerably, which would cause prices to decline. The City gives no assurance to any homeowner that the price of an affordable home will only increase.

#### 7. If I want to sell my home, am I allowed to have an arrangement with a buyer separate from a purchase agreement?

When selling an affordable home, the sales price cannot exceed the maximum amount calculated by the City, and the terms of sales must be fully disclosed in a Residential Purchase Agreement. This means that any outside arrangement, for whatever purpose, is prohibited.

For example, a homeowner cannot have an agreement to sell furniture or other personal property to the homebuyer for cash. The homeowner equally cannot accept a cash payment for accepting a buyer's offer. Any such agreement, which is not fully disclosed in a purchase agreement, is prohibited and would trigger action by the City.

#### 8. Where does it say that the City is allowed to control the resale of my home?

There is an affordable housing covenant recorded on the legal title of every home in the City's affordable housing program. This document, which escrow provides to each homeowner at the time of purchase, describes the price and other use restrictions required by the City. Additional copies of these covenants can be obtained from a title company or from the City for a nominal fee.

#### 9. Were the City's affordable housing program restrictions disclosed to me when I bought my home?

The affordable housing restrictions were disclosed to every homeowner on at least two occasions: at the time of application to the City and in escrow. Each homebuyer eligibility application includes several forms on which applicants acknowledge that their home must be owner occupied and that a future transfer of their home must be made at an affordable price to an income-eligible buyer. In escrow, each buyer signed a deed of trust to the City securing these affordability restrictions. Separately, escrow provided each buyer a copy of the affordable housing covenants recorded on legal title to the property. More specific administrative guidelines used by City staff for handling routine transactions, such as procedures for reviewing homebuyer eligibility applications, are clearly set forth, are reviewed by the City Council as necessary, and are available for public review.

#### 10. Can I opt out of the City affordable housing program?

The covenants recorded on legal title to each property provides for a term for the affordable housing restrictions. In some cases, these restrictions can last 60 years. The City will not release homeowners from their obligations under these covenants until the covenants properly expire.

#### 11. Where can I get more information about the City's affordable housing program?

Detailed information about the City's housing programs can be found at [www.hbbiz.com](http://www.hbbiz.com) or by calling the Office of Business Development at (714) 536-5470.