



# Chapter 40B Sale Prices and Rents

Guidance on calculating 40B affordable sale prices and rents.

## 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.hud.user.org/datasets/il.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 a LIP 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:

Boston MSA 4-person household	Annual Income	Monthly Income	30% of Monthly Income
70% of Area Median Income	\$59,535	\$4,961	\$1,488
80% of Area Median Income	\$66,150	\$5,513	\$1,654

#### Example 2:

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

Mortgage Terms: 30-year fixed term at 6.5%. 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)

	Example # 1	Example # 2	Example # 3
House Price	\$165,000.00	\$176,800.00	\$190,000.00
Down Payment 5%	\$8,250.00	\$8,840.00	\$9,500.00

Mortgage Amount	\$156,750.00	\$167,960.00	\$180,500.00
Principal and Interest	\$965.14	\$1034.16	\$1,111.37
Real Estate Taxes	\$138.00	\$186.00	\$222.00
Private Mortgage Insurance	\$102.00	\$109.00	\$117.00
Homeowners Insurance	\$ 83.00	\$ 59.00	\$ 63.00
Association/Condo Fee	\$ 60.00	\$100.00	\$170.00
<b>TOTAL Monthly Housing Costs</b>	<b>\$1,348.14</b>	<b>\$1,488.18</b>	<b>\$1,683.37</b>

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

## CONTACT

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