

City of Cambridge  
Community Development Department

---

# Affordable Homeownership Program Review

March 24, 2022





# Affordable Homeownership Program

- More than 550 City-assisted affordable homes with affordability restrictions held by the City
- Affordable homes created by:
  - Non-profit development
  - Inclusionary housing provisions
  - Purchase on market with City assistance (HomeBridge and predecessors)
  - Project-specific zoning agreements
- Most homes have form of affordability restriction in use since early 1990s which requires:
  - Owner occupancy
  - Units to remain affordable to another income-eligible buyer when sold



# Program Review Process Introduction

Focus on four program areas:

1. Resale Formula – *How units increase in value over time*
2. Inheritance
3. Capital Improvements
4. Resale Process

*Primary focus on changes to the Resale Formula or Inheritance will then inform a review of capital improvements and resale process.*

# Current Resale Formula – “Return on Equity”

- Affordable Value = Purchase Price + Return on Equity
- Equity = down payment + all principal payments made on mortgage loans
- Not included in equity:
  - Closing costs
  - Interest or fees paid on mortgages
  - Condo fees and property taxes
  - Capital improvement value
- Return on Equity = Equity x Treasury Bill Rate
- Treasury rates used are 10, 20 or 30 year, depending on restriction, published monthly by the Federal Reserve
- Return on Equity is calculated for anniversary month of purchase, prorated for partial years

# Simplified Example

**Original Purchase Price:** \$100,000  
**Downpayment Amount:** \$3,000  
**Original Purchase Date:** 3/5/2015

<b>Anniversary Date</b>	<b>Equity at Year Start</b>	<b>Equity (mortgage principal) Payments</b>	<b>Total Equity Year's End</b>	<b>Interest Rate</b>	<b>Return on Equity</b>
March 2016	\$ 3,000.00	\$ 2,000.00	\$ 5,000.00	1.89%	\$ 94.50
March 2017	\$ 5,000.00	\$ 2,000.00	\$ 7,000.00	2.48%	\$ 173.60
March 2018	\$ 7,000.00	\$ 2,000.00	\$ 9,000.00	2.84%	\$ 255.60
March 2019	\$ 9,000.00	\$ 2,000.00	\$ 11,000.00	2.57%	\$ 282.70
March 2020	\$ 11,000.00	\$ 2,000.00	\$ 13,000.00	1.76%	\$ 228.80
<b>Total:</b>		<b>\$ 10,000.00</b>	<b>\$ 13,000.00</b>		<b>\$ 1,035.20</b>

Purchase Price: \$ 100,000.00  
 Return on Equity through March 2020: \$ 1,035.20  
**Estimated Resale Price:** \$ **101,035.20**  
**Proceeds to Seller (before closing costs):** \$ **11,035.20** Seller's Equity +  
 Return on Equity

## Example One – Inclusionary, Sold Year Ten

	Original Purchase Price:		\$145,500		
	Downpayment Amount:		\$4,365		
	Equity at	Equity	Total Equity	10 Year Treasury	Return on
<u>Year</u>	<u>Year Start</u>	<u>Payments</u>	<u>Year's End</u>	<u>Bill Rate</u>	<u>Equity</u>
1	\$ 4,365.00	\$ 1,513.86	\$ 5,878.86	3.42%	\$ 201.06
2	\$ 5,878.86	\$ 1,730.41	\$ 7,609.27	3.17%	\$ 241.21
3	\$ 7,609.27	\$ 1,818.93	\$ 9,428.20	1.80%	\$ 169.71
4	\$ 9,428.20	\$ 1,911.99	\$ 11,340.19	1.93%	\$ 218.87
5	\$ 11,340.19	\$ 2,009.82	\$ 13,350.01	2.56%	\$ 341.76
6	\$ 13,350.01	\$ 2,112.64	\$ 15,462.65	2.20%	\$ 340.18
7	\$ 15,462.65	\$ 2,220.73	\$ 17,683.38	1.81%	\$ 320.07
8	\$ 17,683.38	\$ 2,334.34	\$ 20,017.72	2.30%	\$ 460.41
9	\$ 20,017.72	\$ 2,453.80	\$ 22,471.52	2.98%	\$ 669.65
Date of Sale	\$ 22,471.52	\$ 845.82	\$ 23,317.34	2.89%	\$ 224.62
<b>Total:</b>		<b>\$ 18,952.34</b>	<b>\$ 23,317.34</b>		<b>\$ 3,187.53</b>
Purchase Price:				\$ 145,500.00	
Return on Equity through Date of Sale:				\$ 3,187.53	
<b>Resale Price:</b>				\$ 148,687.53	
<b>Proceeds to Seller (before closing costs):</b>				\$ 26,504.87	Seller's Equity + Return on Equity

## Example Two – HomeBridge (FAP) Purchase, Sold Year 12

	Original Purchase Price:		\$224,986			
	Downpayment Amount:		\$6,750			
	Equity at	Equity	Total Equity	10 Year Treasury	Return on	
<u>Year</u>	<u>Year Start</u>	<u>Payments</u>	<u>Year's End</u>	<u>Bill Rate</u>	<u>Equity</u>	
1	\$ 6,750.00	\$ 2,391.36	\$ 9,141.36	2.70%	\$ 246.82	
2	\$ 9,141.36	\$ 2,733.32	\$ 11,874.68	2.30%	\$ 273.12	
3	\$ 11,874.68	\$ 2,869.58	\$ 14,744.26	1.68%	\$ 247.70	
4	\$ 14,744.26	\$ 3,012.64	\$ 17,756.90	2.74%	\$ 486.54	
5	\$ 17,756.90	\$ 3,162.84	\$ 20,919.74	2.42%	\$ 506.26	
6	\$ 20,919.74	\$ 3,357.07	\$ 24,276.81	2.17%	\$ 526.81	
7	\$ 24,276.81	\$ 3,483.59	\$ 27,760.40	1.56%	\$ 433.06	
8	\$ 27,760.40	\$ 3,659.85	\$ 31,420.25	2.21%	\$ 694.39	
9	\$ 31,420.25	\$ 3,842.31	\$ 35,262.56	2.89%	\$ 1,019.09	
10	\$ 35,262.56	\$ 4,033.86	\$ 39,296.42	1.63%	\$ 640.53	
11	\$ 39,296.42	\$ 5,499.09	\$ 44,795.51	0.65%	\$ 291.17	
Date of Sale	\$ 44,795.51	\$ 1,930.69	\$ 46,726.20	0.68%	\$ 105.91	
<b>Total:</b>		<b>\$ 39,976.20</b>	<b>\$ 46,726.20</b>		<b>\$ 5,471.39</b>	
Purchase Price:				\$	224,986.00	
Return on Equity through Date of Sale:				\$	5,471.39	
<b>Resale Price:</b>				<b>\$</b>	<b>230,457.39</b>	
<b>Proceeds to Seller (before closing costs):</b>				<b>\$</b>	<b>52,197.59</b>	Seller's Equity + Return on Equity

## Example Three – Non-Profit Development, Sold Year 13, Loan Payoff

	Original Purchase Price:		\$170,000			
	Downpayment Amount:		\$8,500			
	Equity at	Equity	Total Equity	10 Year Treasury	Return on	
<u>Year</u>	<u>Year Start</u>	<u>Payments</u>	<u>Year's End</u>	<u>Bill Rate</u>	<u>Equity</u>	
1	\$ 8,500.00	\$ 3,263.84	\$ 11,763.84	5.00%	\$ 588.19	
2	\$ 11,763.84	\$ 3,430.83	\$ 15,194.67	4.01%	\$ 609.31	
3	\$ 15,194.67	\$ 3,606.35	\$ 18,801.02	3.56%	\$ 669.32	
4	\$ 18,801.02	\$ 3,790.86	\$ 22,591.88	3.01%	\$ 680.02	
5	\$ 22,591.88	\$ 67,934.59	\$ 90,526.47	3.00%	\$ 2,715.79	
6	\$ 90,526.47	\$ 45,473.53	\$ 136,000.00	1.53%	\$ 2,080.80	
7	\$ 136,000.00	\$ -	\$ 136,000.00	2.58%	\$ 3,508.80	
8	\$ 136,000.00	\$ 34,000.00	\$ 170,000.00	2.54%	\$ 4,318.00	
9	\$ 170,000.00	\$ -	\$ 170,000.00	2.36%	\$ 4,012.00	
10	\$ 170,000.00	\$ -	\$ 170,000.00	1.64%	\$ 2,788.00	
11	\$ 170,000.00	\$ -	\$ 170,000.00	2.19%	\$ 3,723.00	
12	\$ 170,000.00	\$ -	\$ 170,000.00	2.91%	\$ 4,947.00	
Date of Sale	\$ 170,000.00	\$ -	\$ 170,000.00	3.00%	\$ 1,700.00	
<b>Total:</b>		<b>\$ 161,500.00</b>	<b>\$ 170,000.00</b>		<b>\$ 32,340.22</b>	
Purchase Price:						\$ 170,000.00
Return on Equity through Date of Sale:						\$ 32,340.22
<b>Resale Price:</b>						<b>\$ 202,340.22</b>
<b>Proceeds to Seller (before closing costs):</b>						<b>\$ 202,340.22</b>
						Seller's Equity + Return on Equity

# Inheritance Policy

## Current Restriction:

- Non-owner spouse has lifetime “right to occupy”
- Other occupants have minimum of one year
- No transfer of ownership without City notification

Policy to give income-eligible adult household members option to purchase

Full value of equity is always inheritable without limitation upon sale

# Process Overview

**Affordable Housing Trust**

**City Council and Housing Committee**

**Current owner focus group meetings – *expected May and June 2022***

**Resale Pool applicant focus group meetings – *expected June or July 2022***

**Public meeting(s) – *expected Summer 2022***

# Next Steps:

- Questions
- Requests for additional information
- Focus groups with owners and applicants
- Next Trust discussion

