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# CITY OF CAMBRIDGE

Community Development Department

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## MEMORANDUM

**To:** Affordable Housing Trust

**From:** Christopher Cotter, Housing Director  
Anna Dolmatch, Senior Manager for Homeownership

**Date:** April 25, 2024

**Re:** Homebuyer Buydown Assistance Changes

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**IRAM FAROOQ**  
Assistant City Manager for  
Community Development

**SANDRA CLARKE**  
Deputy Director  
Chief of Administration

In 2010, the Affordable Housing Trust approved updated guidelines and \$500,000 in funding for Buydown Assistance. This assistance is used to write down the price of an affordable unit for potential buyers whose incomes are slightly too low to meet the required affordability ratio, but who are otherwise well-qualified first-time homebuyers. Buydown Funding Assistance is a permanent subsidy that reduces the price of each unit at purchase and at resale.

The approved guidelines limit the funds to the lower of \$50,000 or 25% of the purchase price for a unit with two or more bedrooms, and the lower of \$25,000 or 25% for a one-bedroom. These limits have not changed since 2010. Buydown Assistance is used to fill the gap between the actual monthly costs and an affordable price for the buyer.

We have factored in Buydown Assistance when reviewing applicants for lottery and resale units. However, most buyers who qualified using Buydown Assistance do not end up needing it because they are often able to obtain lower interest rates than anticipated. Since 2010, less than \$120,000 of the \$500,000 has been used.

Potential homebuyers are reviewed and approved for Buydown Assistance based on a set of guidelines approved by the Trust. These guidelines look at qualifications such as consistent employment history; strong savings; and low debt. Even with a lower price, there are still costs to own a home that will not be reduced with buydown, so the purpose of the guidelines is to reduce the chances that a buydown-assisted buyer will face financial instability.

At this time, we recommend changes to the Buydown Assistance program. First, we recommend increasing the assistance limits. In addition to the increases in interest rates, area median income (AMI) targets have also increased so much that prices for the three-bedroom units targeted to 65% AMI now regularly exceed \$300,000. With the change in the Inclusionary Ordinance to price new units to be affordable to buyers earning for 90% of AMI, the units available in the current lottery are priced starting at \$399,000 for a two-bedroom and go up to

more than \$450,000 for a three-bedroom. The maximum current amount of buydown assistance would reduce the income needed for this lottery by approximately \$13,000. In order to better align with price increases in the last 14 years and serve more qualified buyers, we recommend increasing the buydown maximums to the lesser of \$100,000 or 25% of the purchase price for two or more bedrooms, and to the lesser of \$50,000 or 25% of the purchase price for a one-bedroom.

Buydown Assistance is provided only in the amount necessary to bridge the difference between affordability for the identified buyer and the monthly costs for each unit. Most buyers who have used Buydown Assistance have not received the maximum amount.

In addition to increasing the maximum funding amount, we recommend that the Trust approve updated guidelines for the use of Buydown Assistance to reflect how we think best to consider use the funds for individual buyers. The criteria for approval remain consistent employment income; strong savings history; and low consumer debt. We have added specific objective qualifications for each of these criteria.

Draft updated Buydown Assistance guidelines are attached. These guidelines include the method for calculating buydown, which has been updated to reflect current underwriting standards and an increased liquid asset cushion.

Updating the Buydown Assistance program will enable us to better deploy these funds to increase affordability and help certain well-qualified buyers to purchase.