

Glossary of Terms

The following are some of the terms used in materials describing the City of Cambridge affordable homeownership program terms. These definitions relate to how these terms are used in the program; there may be other meanings. All legal terms in an affordable housing restriction have the meaning defined in that restriction.

General Terms:

Affordable Housing Restriction: The legal document that includes all the affordability terms. The restriction may be called an “Affordable Housing Agreement”, “Affordable Housing Covenant”, or in rare cases, a “Deed Rider”. Some restrictions are on the entire building and were signed by the building developer; others were signed directly by the homeowner.

Affordable Price: The price paid by the current owner at the time of purchase, not including any subsidy given to reduce the price, including HomeBridge, Financial Assistance, CHBI, Buydown Assistance, or any funds contributed by a HomeBridge buyer in excess of the maximum program purchase limit.

Affordable Value: How much the unit is worth at any point in time based on the Resale Formula.

Amendment: a legal document that updates the terms of the existing Affordable Housing Restriction.

Resale Formula: The formula to determine how affordable units increase in value over time.

“Return on Equity” Resale Formula:

Amortization: Reducing or paying off debt over a period of time through regular payments.

Downpayment: Funds paid by the buyer that, combined with the mortgages at purchase, equal the total original affordable purchase price. Funds provided by the City through programs including CHBI, Financial Assistance, HomeBridge, or Buydown Assistance are not buyer downpayment. Funds provided by the City through the down payment program are buyer downpayment, subject to repayment in the first five years.

Equity: The difference between the value of a unit and the amount owed on all mortgages. The equity is the sum of the buyer's downpayment, plus all principal payments made on mortgages

Principal: For a mortgage, the principal is the total amount owed on the loan.

Principal payments are the portion of the monthly payment that pays back the original loan and does not go to paying interest, fees, or escrow costs.

Treasury Bill Rate: An interest rate on bonds sold by the Federal government. In most current restrictions, this interest rate is used in the "Return on Equity" resale formula. Most restrictions use the 10-year Treasury bill, which means the interest rate for a bond that matures in 10 years. Some older restrictions use either the 20- or 30-year Treasury bill rate. The rates are published by the Federal Reserve and are not determined by the City.

New 2.5% Resale Formula:

Simple interest: Interest that is calculated on a base amount at a set rate for each set period. The amount earned for each set period remains the same.

Capital Improvements:

Capital improvement: In the affordable homeownership program, capital improvements are either new elements added to the unit or common area or the replacement of existing elements that are at the end of their "standard useful life".

Depreciation: Reduction in value over time.

Standard Useful Life: The expected number of years that something will last. For the homeownership program, this applies to the physical parts of a unit, including things like flooring, windows, cabinets, and appliances.