

RECEIVED BY  
OFFICE OF CITY CLERK

1989 JAN -5 PM 4:34

CAMBRIDGE MA.

Cambridge Tenants Union  
1151 Massachusetts Avenue  
Cambridge, Mass. 02138  
January 5, 1989

Cambridge City Council  
City Hall  
795 Massachusetts Avenue  
Cambridge, Mass. 02139

To the Honorable; the City Council:

At the December 19th meeting of the City Council, Councillor William Walsh introduced an order suggesting that the Cambridge Rent Control Board had set the interest rate allowed landlords for amortizing the costs of capital improvements too low, and that the Rent Board should set new, higher rates as a minimum. Councillor David Sullivan exercised his charter right and postponed any action on the order until the next council meeting.

Councillor Walsh's order is both flawed and inaccurate. His order refers to a previous order introduced by Mayor Vellucci. In fact, the previous council order concerning interest rates for capital improvements was introduced by Councillor Walsh, then amended by Councillor Duehay, and approved as amended on June 29, 1987. (Councillor Walsh voted against the amended order.) The order as amended actually called for the following:

"That the Rent Control Board conduct a study of the landlord's cost of capital incurred in financing capital improvements and then set an allowable amortization rate on capital improvements equal to the cost of capital determined by the Rent Control Board in that study to be done within one month."

A copy of the June 29, 1987 order is attached.

The Rent Board responded to the order by conducting studies of the cost of capital for landlords. A preliminary study prepared by the staff of the Rent Board was presented to the Board in December 1987. It found that in a majority of cases landlords did not borrow; otherwise it provided evidence of interest rates on loans taken out by landlords in only a handful of instances. The Board did not rely upon this study when it voted to raise the rates which large landlords obtained to 13 percent and small landlords to 15 percent.

A more substantial study was prepared by the staff of the Rent Board and presented to the Board in December 1988. It drew the following conclusions:

"Most significantly, it appears that only a small percentage of landlords actually borrow money to finance capital improvements. Of those who did report loans, all were small landlords. And of this sub-group, no one paid more than 15.07% interest, with the average rate standing at 11.39%." (p. 2 of report)

There was no evidence in the study indicating that the current interest rates set by the Board were too low or prevented landlords from recovering their full costs of financing capital improvements; on the contrary, the rates are overly generous. A copy of the Rent Board staff study of November 30, 1988, is attached.

If the Rent Board had based the interest rates it allowed on the results of the staff study, in accordance with the Council order of June 29, 1987, the Board would have set the rate at 4 percent for large landlords (that is, at the annual rate of inflation) and 11-11½ percent for small landlords. Instead, the Board effectively ignored the results of the staff survey and chose the much higher rates of 12 percent for large landlords and 15 percent for small landlords.

What the Rent Board is doing thereby is allowing many landlords to reap substantial profits while making capital improvements. This has caused some landlords to make unnecessary or overly expensive capital improvements, driving up rents excessively and reducing the number of affordable housing units in the city.

We respectfully request that the City Council reaffirm its order of June 29, 1987, and encourage the Rent Board to broaden the recent staff study by determining clear responses where data in the survey is now deemed "bad" and by using its subpoena powers to untangle the actual costs of capital in complex business operations like Resource Capitol Group, where funds for acquisition and rehabilitation are often commingled and refinancing follows shortly thereafter. We would then ask the Rent Board to set new interest rates based on this expanded study. Given what the staff survey has determined so far, we would expect that the interest rates allowed for capital improvements would be reduced considerably.

Respectfully submitted,



Michael H. Turk,  
Co-chair



# City of Cambridge

AMENDED  
(Calendar Item No. 6)

--1--

## IN CITY COUNCIL

~~May 18, 1987~~  
June 29, 1987

COUNCILLOR WALSH

- WHEREAS: The Rent Control Board on March 18, 1987 amended its Regulation 72-10 effective March 19, 1987, to lower the allowed interest rates on capital improvements from 15% to 10% for large landlords and from 15% to 14% for small landlords; and
- WHEREAS: These new allowed interest rates clearly appear to be less than the costs of capital that landlords incur in financing capital improvements; now therefore be it
- ORDERED: That the Rent Control Board conduct a study of the landlord's cost of capital incurred in financing capital improvements and then set an allowable amortization rate on capital improvements equal to the cost of capital determined by the Rent Control Board in that study to be done within one month.

In City Council June 29, 1987.  
Adopted by a yea and nay vote:-  
Yeas 5; Nays 4; Absent 0.  
Attest:- Joseph E. Connarton, City Clerk.

A true copy;

ATTEST:-

*Joseph E. Connarton*  
Joseph E. Connarton, City Clerk.

MEMO

To: The Board  
From: Peter Zimmerman, Hearing Examiner  
Re: Interest Rates on Capital Improvements  
Date: November 30, 1988

Attachments:

- A -- Interest Survey included in Reg. 76 petitions since June '88.
- B -- Interest Rate Survey Data from 1987 Reg.-76 Petitions.
- c -- November 1988 Applicable Federal Interest Rates Table.

Pursuant to Reg. 72-10 amortization rates for capital improvement completed in 1989 will be determined on the following basis:

Rate "A", for small landlords will be set at seven percentage points above the November 1988 long-term AFI, rounded to the nearest whole number. "If this method results in a rate above 15% or below 12%, the change will be effective only if approved by the Rent Control Board."

Rate "B", for large landlords will be determined by subtracting four percentage points from rate "A".

This results in the following possible interest rates for next year:

If approved above 15%

A = AFI + 7%  
A = 9.16% + 7%  
A = 16%  
  
B = A - 4%  
B = 12%

If capped at 15%

A = 15%  
  
B = 12%

*attached  
11/1/89  
72-10*

The Interest Rate Survey

At the request of the Board, the Rent Control Staff has undertaken a survey of landlords filing RA petitions to determine trends in capital improvement financing. It is the purpose of this ongoing project to determine who is borrowing to finance capital improvements, and what interest rate they are paying.

Since the beginning of the collection period in June of this year, a significant percentage of the petitions have yielded incomplete data. This can be attributed to the lag time between the distribution of the survey and the point at which landlords

exhausted their supply of old petitions. Another contributing factor to this problem was the lack of a clearly defined procedure for ensuring that the survey section of the petitions were completely filled out. At this point in time Mr. Packer, the Senior Hearing Examiner, is sending incomplete petitions back to Hearing Officers to collect all required information.

Despite these collection problems, there is no indication that any class of landlord has been misrepresented in the complete data set, and certain tentative conclusions can be drawn. Most significantly, it appears that only a small percentage of landlords actually borrow money to finance capital improvements. Of those who did report loans, all were small landlords. And of this sub-group, no one paid more than 15.07% interest, with the average rate standing at 11.39%. There was little data with which to establish trends for the length of repayment periods, they ranged from between 12 and 240 months.

### Recommendations

Since the few who have borrowed money have been able to obtain interest rates in the 11 to 12% range, interest rates for class "A" landlords should be capped at 15%. This figure is clearly above the borrowing cost for almost all landlords, and should not serve as a disincentive to those contemplating major capital improvements.

The Board should engage in research to establish policies that go beyond the neutral standard of neither encouraging nor discouraging capital expenditures. Certain types of work which are consistent with the objective of maintaining and enhancing the city's housing stock should be encouraged. This could be accomplished either through the use of a multi-level interest schedule (higher interest for vital work), or by creating a class of capital improvements that would not be rescinded until they were actually replaced. These non-rescinding caps could go into place with a lower interest rate than is presently allowed, while still offering encouragement to landlords.

VI. Special Case: Energy Conservation Improvements:

According to Regulation 76-05(a), the cost of capital improvements considered energy-saving may be amortized at an interest rate and over a useful life equal to the terms of a loan granted to finance the expense of the work. Any loan must be given by a recognized lending institution and a copy of the agreement must be attached to this petition. A loan to cover the installation of storm windows will be amortized over not less than five years.

If the owner installs individual heating systems to remove heat as a service provided to the tenants, the owner must insulate or show proof of insulation in the building roof to the State Standard of R-20. If such insulation value is not provided, the cost of converting the heating system will not be amortized according to the terms of the loan, but at the rate outlines in Regulation 72-10. The owner should be aware that if heat is eliminated as a service included in the rent, the examiner shall calculate a reduction in rent which is equal to the amount currently in the legal maximum rent as the cost of heat.

VII. Filing Fee:

The filing fee will be included as an expense in this adjustment. The yearly amount will be determined by dividing the filing fee by the shortest useful life of an allowed improvement.

VIII. Interest Rate Survey:

This section must be completed before the petition will be docketed. The information supplied will not in any way effect the interest rate allocated for the improvements claimed herein.

1. Did you borrow money to finance any of the capital improvements included in this petition?

Yes (go to #2)       No (go to #3)

2. If yes, please state:

amount(s) borrowed: \_\_\_\_\_

rate(s): \_\_\_\_\_

term(s): \_\_\_\_\_

cost of fees or points: \_\_\_\_\_

name of lending institution(s) \_\_\_\_\_  
(or credit company)

improvement(s) for which borrowed funds were used: \_\_\_\_\_

3. If no, was it because you tried but could not get financing?

Yes  No

Name(s) of institution which rejected application: \_\_\_\_\_

IX. Additional Information:

Is there any other information that the Rent Control Board should know in consideration of this petition?

Yes  No

Is yes, explain:

I am  I am not claiming the higher interest rate available to owners of less than 35 units.

NOTE: If the higher interest rate is being claimed, the attached affidavit must be completed.

The foregoing statements in this petition are true to the best of my knowledge and belief.

\_\_\_\_\_  
DATE

\_\_\_\_\_  
PETITIONER'S SIGNATURE

## Loan Survey Calculations

Number of Cases:	114
complete Data:	69
Bad Data:	45
Avrg AMT Allowed:	\$13,462.83
Avrg Loan Rate:	11.39 %
Avrg Amt Loan:	\$17,650.91

Total Small LL:	39
Small No Loan & Did Not Try:	26
Small W Loan:	12
Avrg Sml Ln:	\$17,650.91
Avrg Sml Ln Rate:	11.39 %
Small Denied L:	1

Total Large LL:	30
Large W/O Loan:	30
Large Denied L:	0

Case #	Street	#	Unts	AMT	ALLWD	Sml	ln	Tried	AMT	Ln	Rate	Term	points
288069	Inman	39-41		27150		Lrg	No	No					
687400	Banks	28-30	4	19814		Lrg	No	No					
688087	Charles	228	8	4900		Sml	No	No					
688096	Notre Dam	6-8	4	9880		Sml	Yes	Yes	10000	9.95	0	500	
688107	Norfolk	86	4	3965		Sml	Bad	Bad					
688111	Shepard	14	10	12800		Sml	Yes	Yes	15000	14	120	Bad	
688112	Gore	16	3	4500		Sml	No	No					
688114	Wendall	11	5	2800		Sml	No	No					
688116	Essex	21	7	1700		Sml	No	No					
688118	Fairfield	25	6	8100		Sml	No	No					
688119	Hurley	62-64	6	26616		Sml	No	No					
688120	Norfolk	345	6	13000		Sml	No	No					
688124	Flagg	11	4	4300		Lrg	Bad	Bad					
688124	Walden	304	1	6400		Sml	Bad	Bad					
688125	Highland	78	6	29800		Sml	No	No					
688125	Fayerweat	95	3	6100		Sml	Bad	Bad					
688127	Bristol	32	3	9650		Sml	No	No					
688128	Mellen	18	5	1975		Lrg	No	No					
688129	Howland	10	2	9200		Lrg	Bad	Bad					
688131	Banks	132-134	2	2525		Lrg	No	No					
688133	Mellen	20	2	4099		Lrg	No	No					
688135	Forest	16-18A	57	204323		Lrg	Bad	Bad					
688136	Forest	17-19A	66	171077		Lrg	Bad	Bad					
688141	Brookline	322	6	2400		Lrg	No	No					
688144	Hampshire	134-136	4	7200		Sml	No	No					
688147	Sacrament	24	2	2880		Lrg	No	No					
688148	Wendell	84	6	4353		Lrg	No	No					
688149	Banks	33-35	2	7172		Lrg	No	No					
688150	PorterSt	24-28	4	9680		Sml	Bad	Bad					
688155	Harvard	213	2	10754		Sml	Yes	Yes	50000	12.75	180	900	
688157	Plymouth	48-50	6	4580		Lrg	Bad	Bad					
688158	Antrim	16-18	4	17106		Sml	Yes	Yes	30000	10.75	240	0	
688172	Putnam	417	1	2781		Sml	No	No					
688179	Frost	64	5	2387		Sml	Bad	Bad					
688180	Walden	110-112	2	15433		Sml	No	No					
688181	Putnam	49-51	3	5681		Sml	No	No					
688182	Cambridge	1590	6	14810		Sml	No	No					
688183	Garden	24	1	946		Sml	No	No					
688188	Garden	26-28	8	21878		Lrg	No	No					
688190	Hurley	317-321				Bad	Bad	Bad					
688191	Sacrament	31A	3	72304		Sml	Bad	Bad					
688192	Broadway	257-257	4	5580		Sml	No	No					
688193	Concord	3	1	1700		Bad	Bad	Bad					
688194	Waterhous	1	1	1006		Bad	Bad	Bad					
688195	Winter	83	1			Bad	Bad	Bad					
688197	Prince	70-72	2	1600		Sml	No	No					
688200	Brookline					Bad	Bad	Bad					
688201	Langdon	1-3	33			Bad	Bad	Bad					
688204	clinton	2	1	1280		Sml	Bad	Bad					
688205	clinton	2	1	1280		Sml	Bad	Bad					
688206	clinton	2	1	1696		Sml	Bad	Bad					
688207	clinton	2	1	1317		Sml	Bad	Bad					
688208	clinton	2	1	1280		Sml	Bad	Bad					
688209	clinton	2	1	874		Sml	Bad	Bad					
688210	Hurley	307-313	6	4689		Bad	Bad	Bad					
688211	Hamilton	144	1	4381		Sml	No	No					

Case #	Street	#	Unts	AMT	ALLWD	Sml	In	Tried	AMT	Ln	Rate	Term	points
688212	Elm	200	6	23463		Sml	No	No					
688213	Harvard	217	6	10674		Sml	Yes	Yes	50000	12.75	180	900	
688215	Broadway	448	6	80		Sml	Yes	Yes	11400	10	Bad	0	
688216	Broadway	452	6	80		Sml	Yes	Yes	Bad	10	Bad	0	
688217	Franklin	348	1	2928		Sml	Yes	Yes	2500	10	12	0	
688218	Ware	17	1	5671		Lrg	No	No					
688219	Garfield	54	6	9370		Sml	No	No					
688220	Mt. Aubur	22h-24	4			Bad	Bad	Bad					
688221	Plympton	8	2	34885		Lrg	No	No					
688223	Parker	32	1			Bad	Bad	Bad					
688228	Prospect	374-376	3			Bad	Bad	Bad					
688231	Carver	2	3	32371		Sml	No	No					
688232	Foster	58-60	2	7648		Sml	Yes	Yes	6000	11	0	350	
688236	Lawrence	3-7	5	13200		Sml	No	Yes					
688239	Franklin	185	7	11500		Sml	No	No					
688244	May	41-43	6	5400		Sml	Yes	Yes	6000	9	Bad	0	
688245	Glenwood	28-30	6			Bad	Bad	Bad					
688246	Greenough	2-4	10	2850		Lrg	No	No					
688247	Oxford	123	13	2400		Lrg	No	No					
688249	Cambridge	1431	5			Bad	Bad	Bad					
688250	Hammond	84-90	3			Bad	Bad	Bad					
688251	Prescott	20	1	10407		Lrg	No	No					
688253	Norfolk	90	8			Sml	Bad	Bad					
688288	Prospect	374-37	3			Bad	Bad	Bad					
688320	Green	694-70	220	5950		Sml	No	No					
688321	Hurley	317-321	6	5648		Lrg	No	No					
688334	Elm	297	1	7036		Lrg	No	No					
688335	Mass	1200	94	35580		Lrg	Bad	Bad					
688337	Broadway	373-375	21	7065		Sml	No	No					
688338	Garden	Ct 4	1			Bad	Bad	Bad					
688339	Hammond	74	2	10643		Lrg	No	No					
688340	Grant	12	1			Bad	Bad	Bad					
688341	Athens	3	1	7667		Lrg	No	No					
688342	Garfield	44	5			Bad	Bad	Bad					
688343	Athens	Terl	1			Bad	Bad	Bad					
688344	Sparks	67	1			Bad	Bad	Bad					
688345	Prescott	24	1	2520		Lrg	No	No					
688346	Plympton	101-102	3	3031		Lrg	No	No					
688348	Concord	286	6	13245		Sml	Yes	Yes	10000	Bad	Bad	Bad	
688351	Oxford	106-110	12	3563		Lrg	No	No					
688359	Magazine	48	6	3721		Sml	Yes	Yes	3260	15.07	36	0	
688360	Winter	89	1			Bad	Bad	Bad					
688361	Norfolk	160	2	10982		Lrg	No	No					
688364	Windsor	357-359	6			Bad	Bad	Bad					
688367	Broadway	381	5	4648		Sml	No	No					
688372	Ware	9-13A	6	17525		Lrg	No	No					
688376	Shea	31	1	7250		Sml	Bad	Bad					
688403	Kelly	23A	3	3100		Sml	No	No					
688409	Cambridge	1423				Bad	Bad	Bad					
	Davenport	8	4	22000		Sml	Bad	Bad					
	Western	381	1	d		Bad	Bad	Bad					
	Binny	472				Bad	Bad	Bad					

(term of 3 years or less), mid-term debt instruments (over 3 years but not more than 9 years), and long-term debt instruments (term of over 9 years). The columns reflect minimum rates to use if interest is compounded monthly, quarterly, semiannually or annually. *Note:* The interest rates in the monthly, quarterly and annual compounding columns are equivalent rates to semiannual compounding which is statutorily required.

»HOW TO USE THE TABLES→ First find the table for the appropriate month and the subdivision of the table with the same term as the debt instrument or other transaction. Now find the row with the Applicable Federal Rate percentage (100%, 110%, or 120% of AFR) that must be used for the transaction. See editorials referenced above. The interest rate in the column with the compounding period you are using is the AFR that applies unless a sale or exchange is involved. Sales or exchanges get a special break; the AFR to use is the lowest rate for the 3-month period ending with the month in which a binding written contract is entered into. So check the appropriate row and column of the Tables for the 2 months preceding the sale or exchange to find the lowest interest rate percentage to use.

*Note:* Monthly interest tables were provided starting with Jan. 1985. The semiannual tables were ended after 6-30-85.

»LOWER RATES MAY BE AVAILABLE→ Regs. may allow lower interest rates to be used if it is established to the satisfaction of IRS that the rates are based on the same principles as AFRs and they are appropriate for the term of the debt instruments. In addition, some transactions automatically qualify for lower interest rates than appear in the tables. So be sure to check the appropriate editorials referenced above.

## MONTHLY INTEREST RATES TABLES

	Annual	Semiannual	Quarterly	Monthly
November 1988 <sup>28</sup>				
Applicable Federal Rate AFR	8.41%	Short-Term		8.10%
110% AFR	9.27%	8.24%	8.16%	8.89%
120% AFR	10.13%	9.06%	8.96%	9.69%
		9.89%	9.77%	
		Mid-Term		
AFR	8.91%	8.72%	8.63%	8.57%
110% AFR	9.82%	9.59%	9.48%	9.40%
120% AFR	10.73%	10.46%	10.33%	10.24%
		Long-Term		
AFR	9.16%	9.96%	8.86%	8.80%
110% AFR	10.10%	9.86%	9.74%	9.66%
120% AFR	11.04%	10.75%	10.61%	10.52%
October 1988 <sup>28a</sup>				
		Short-Term		
AFR	8.56%	8.38%	8.29%	8.24%
110% AFR	9.43%	9.22%	9.12%	9.05%
120% AFR	10.31%	10.06%	9.94%	9.86%
		Mid-Term		
AFR	9.19%	8.99%	8.89%	8.83%
110% AFR	10.13%	9.89%	9.77%	9.69%
120% AFR	11.08%	10.79%	10.65%	10.56%
		Long-Term		
AFR	9.45%	9.24%	9.14%	9.07%
110% AFR	10.42%	10.16%	10.03%	9.95%
120% AFR	11.40%	11.09%	10.94%	10.84%

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CAMBRIDGE MA.

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1151 Massachusetts Avenue  
Cambridge, Mass. 02138  
January 5, 1989

Cambridge City Council  
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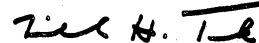
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If the Rent Board had based the interest rates it allowed on the results of the staff study, in accordance with the Council order of June 29, 1987, the Board would have set the rate at 4 percent for large landlords (that is, at the annual rate of inflation) and 11-11½ percent for small landlords. Instead, the Board effectively ignored the results of the staff survey and chose the much higher rates of 12 percent for large landlords and 15 percent for small landlords.

What the Rent Board is doing thereby is allowing many landlords to reap substantial profits while making capital improvements. This has caused some landlords to make unnecessary or overly expensive capital improvements, driving up rents excessively and reducing the number of affordable housing units in the city.

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Michael H. Turk,  
Co-chair



# City of Cambridge

AMENDED  
(Calendar Item No. 6)

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June 29, 1987

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A true copy;

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To: The Board  
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### Recommendations

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According to Regulation 76-05(a), the cost of capital improvements considered energy-saving may be amortized at an interest rate and over a useful life equal to the terms of a loan granted to finance the expense of the work. Any loan must be given by a recognized lending institution and a copy of the agreement must be attached to this petition. A loan to cover the installation of storm windows will be amortized over not less than five years.

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VII. Filing Fee:

The filing fee will be included as an expense in this adjustment. The yearly amount will be determined by dividing the filing fee by the shortest useful life of an allowed improvement.

VIII. Interest Rate Survey:

This section must be completed before the petition will be docketed. The information supplied will not in any way effect the interest rate allocated for the improvements claimed herein.

1. Did you borrow money to finance any of the capital improvements included in this petition?

Yes (go to #2)       No (go to #3)

2. If yes, please state:

amount(s) borrowed: \_\_\_\_\_

rate(s): \_\_\_\_\_

term(s): \_\_\_\_\_

cost of fees or points: \_\_\_\_\_

name of lending institution(s) \_\_\_\_\_  
(or credit company)

improvement(s) for which borrowed funds were used: \_\_\_\_\_

3. If no, was it because you tried but could not get financing?

Yes       No

Name(s) of institution which rejected application: \_\_\_\_\_

IX. Additional Information:

Is there any other information that the Rent Control Board should know in consideration of this petition?

Yes       No

Is yes, explain:

I am       I am not claiming the higher interest rate available to owners of less than 35 units.

NOTE: If the higher interest rate is being claimed, the attached affidavit must be completed.

The foregoing statements in this petition are true to the best of my knowledge and belief.

\_\_\_\_\_  
DATE

\_\_\_\_\_  
PETITIONER'S SIGNATURE

## Loan Survey Calculations

Number of Cases:	114
complete Data:	69
Bad Data:	45
Avrg AMT Allowed:	\$13,462.83
Avrg Loan Rate:	11.39 %
Avrg Amt Loan:	\$17,650.91

Total Small LL:	39
Small No Loan & Did Not Try:	26
Small W Loan:	12
Avrg Sml Ln:	\$17,650.91
Avrg Sml Ln Rate:	11.39 %
Small Denied L:	1

Total Large LL:	30
Large W/O Loan:	30
Large Denied L:	0

Case #	Street	#	Unts	AMT	ALLWD	Sml	ln	Tried	AMT	Ln	Rate	Term	points
288069	Inman	39-41		27150		Lrg	No	No					
687400	Banks	28-30	4	19814		Lrg	No	No					
688087	Charles	228	8	4900		Sml	No	No					
688096	Notre Dam	6-8	4	9880		Sml	Yes	Yes	10000	9.95	0	500	
688107	Norfolk	86	4	3965		Sml	Bad	Bad					
688111	Shepard	14	10	12800		Sml	Yes	Yes	15000	14	120	Bad	
688112	Gore	16	3	4500		Sml	No	No					
688114	Wendall	11	5	2800		Sml	No	No					
688116	Essex	21	7	1700		Sml	No	No					
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688120	Norfolk	345	6	13000		Sml	No	No					
688124	Flagg	11	4	4300		Lrg	Bad	Bad					
688124	Walden	304	1	6400		Sml	Bad	Bad					
688125	Highland	78	6	29800		Sml	No	No					
688125	Fayerweat	95	3	6100		Sml	Bad	Bad					
688127	Bristol	32	3	9650		Sml	No	No					
688128	Mellen	18	5	1975		Lrg	No	No					
688129	Howland	10	2	9200		Lrg	Bad	Bad					
688131	Banks	132-134	2	2525		Lrg	No	No					
688133	Mellen	20	2	4099		Lrg	No	No					
688135	Forest	16-18A	57	204323		Lrg	Bad	Bad					
688136	Forest	17-19A	66	171077		Lrg	Bad	Bad					
688141	Brookline	322	6	2400		Lrg	No	No					
688144	Hampshire	134-136	4	7200		Sml	No	No					
688147	Sacrament	24	2	2880		Lrg	No	No					
688148	Wendell	84	6	4353		Lrg	No	No					
688149	Banks	33-35	2	7172		Lrg	No	No					
688150	PorterSt	24-28	4	9680		Sml	Bad	Bad					
688155	Harvard	213	2	10754		Sml	Yes	Yes	50000	12.75	180	900	
688157	Plymouth	48-50	6	4580		Lrg	Bad	Bad					
688158	Antrim	16-18	4	17106		Sml	Yes	Yes	30000	10.75	240	0	
688172	Putnam	417	1	2781		Sml	No	No					
688179	Frost	64	5	2387		Sml	Bad	Bad					
688180	Walden	110-112	2	15433		Sml	No	No					
688181	Putnam	49-51	3	5681		Sml	No	No					
688182	Cambridge	1590	6	14810		Sml	No	No					
688183	Garden	24	1	946		Sml	No	No					
688188	Garden	26-28	8	21878		Lrg	No	No					
688190	Hurley	317-321				Bad	Bad	Bad					
688191	Sacrament	31A	3	72304		Sml	Bad	Bad					
688192	Broadway	257-257	4	5580		Sml	No	No					
688193	Concord	3	1	1700		Bad	Bad	Bad					
688194	Waterhous	1	1	1006		Bad	Bad	Bad					
688195	Winter	83	1			Bad	Bad	Bad					
688197	Prince	70-72	2	1600		Sml	No	No					
688200	Brookline					Bad	Bad	Bad					
688201	Langdon	1-3	33			Bad	Bad	Bad					
688204	clinton	2	1	1280		Sml	Bad	Bad					
688205	clinton	2	1	1280		Sml	Bad	Bad					
688206	clinton	2	1	1696		Sml	Bad	Bad					
688207	clinton	2	1	1317		Sml	Bad	Bad					
688208	clinton	2	1	1280		Sml	Bad	Bad					
688209	clinton	2	1	874		Sml	Bad	Bad					
688210	Hurley	307-313	6	4689		Bad	Bad	Bad					
688211	Hamilton	144	1	4381		Sml	No	No					

Case #	Street	#	Unts	AMT	ALLWD	Sml	ln	Tried	AMT	Ln	Rate	Term	points
688212	Elm	200	6	23463		Sml	No	No					
688213	Harvard	217	6	10674		Sml	Yes	Yes	50000	12.75	180	900	
688215	Broadway	448	6	80		Sml	Yes	Yes	11400	10	Bad	0	
688216	Broadway	452	6	80		Sml	Yes	Yes	Bad	10	Bad	0	
688217	Franklin	348	1	2928		Sml	Yes	Yes	2500	10	12	0	
688218	Ware	17	1	5671		Lrg	No	No					
688219	Garfield	54	6	9370		Sml	No	No					
688220	Mt. Aubur	22h-24	4			Bad	Bad	Bad					
688221	Plympton	8	2	34885		Lrg	No	No					
688223	Parker	32	1			Bad	Bad	Bad					
688228	Prospect	374-376	3			Bad	Bad	Bad					
688231	Carver	2	3	32371		Sml	No	No					
688232	Foster	58-60	2	7648		Sml	Yes	Yes	6000	11	0	350	
688236	Lawrence	3-7	5	13200		Sml	No	Yes					
688239	Franklin	185	7	11500		Sml	No	No					
688244	May	41-43	6	5400		Sml	Yes	Yes	6000	9	Bad	0	
688245	Glenwood	28-30	6			Bad	Bad	Bad					
688246	Greenough	2-4	10	2850		Lrg	No	No					
688247	Oxford	123	13	2400		Lrg	No	No					
688249	Cambridge	1431	5			Bad	Bad	Bad					
688250	Hammond	84-90	3			Bad	Bad	Bad					
688251	Prescott	20	1	10407		Lrg	No	No					
688253	Norfolk	90	8			Sml	Bad	Bad					
688288	Prospect	374-37	3			Bad	Bad	Bad					
688320	Green	694-702	20	5950		Sml	No	No					
688321	Hurley	317-321	6	5648		Lrg	No	No					
688334	Elm	297	1	7036		Lrg	No	No					
688335	Mass	1200	94	35580		Lrg	Bad	Bad					
688337	Broadway	373-375	21	7065		Sml	No	No					
688338	Garden Ct	4	1			Bad	Bad	Bad					
688339	Hammond	74	2	10643		Lrg	No	No					
688340	Grant	12	1			Bad	Bad	Bad					
688341	Athens	3	1	7667		Lrg	No	No					
688342	Garfield	44	5			Bad	Bad	Bad					
688343	Athens Ter	1	1			Bad	Bad	Bad					
688344	Sparks	67	1			Bad	Bad	Bad					
688345	Prescott	24	1	2520		Lrg	No	No					
688346	Plympton	101-102	3	3031		Lrg	No	No					
688348	Concord	286	6	13245		Sml	Yes	Yes	10000	Bad	Bad	Bad	
688351	Oxford	106-110	12	3563		Lrg	No	No					
688359	Magazine	48	6	3721		Sml	Yes	Yes	3260	15.07	36	0	
688360	Winter	89	1			Bad	Bad	Bad					
688361	Norfolk	160	2	10982		Lrg	No	No					
688364	Windsor	357-359	6			Bad	Bad	Bad					
688367	Broadway	381	5	4648		Sml	No	No					
688372	Ware	9-13A	6	17525		Lrg	No	No					
688376	Shea	31	1	7250		Sml	Bad	Bad					
688403	Kelly	23A	3	3100		Sml	No	No					
688409	Cambridge	1423				Bad	Bad	Bad					
	Davenport	8	4	22000		Sml	Bad	Bad					
	Western	381	1	d		Bad	Bad	Bad					
	Binny	472				Bad	Bad	Bad					

(term of 3 years or less), mid-term debt instruments (over 3 years but not more than 9 years), and long-term debt instruments (term of over 9 years). The columns reflect minimum rates to use if interest is compounded monthly, quarterly, semiannually or annually. *Note:* The interest rates in the monthly, quarterly and annual compounding columns are equivalent rates to semiannual compounding which is statutorily required.

»HOW TO USE THE TABLES» First find the table for the appropriate month and the subdivision of the table with the same term as the debt instrument or other transaction. Now find the row with the Applicable Federal Rate percentage (100%, 110%, or 120% of AFR) that must be used for the transaction. See editorials referenced above. The interest rate in the column with the compounding period you are using is the AFR that applies unless a sale or exchange is involved. Sales or exchanges get a special break; the AFR to use is the lowest rate for the 3-month period ending with the month in which a binding written contract is entered into. So check the appropriate row and column of the Tables for the 2 months preceding the sale or exchange to find the lowest interest rate percentage to use.

*Note:* Monthly interest tables were provided starting with Jan. 1985. The semiannual tables were ended after 6-30-85.

»LOWER RATES MAY BE AVAILABLE» Regs. may allow lower interest rates to be used if it is established to the satisfaction of IRS that the rates are based on the same principles as AFRs and they are appropriate for the term of the debt instruments. In addition, some transactions automatically qualify for lower interest rates than appear in the tables. So be sure to check the appropriate editorials referenced above.

MONTHLY INTEREST RATES TABLES

	Annual	Semiannual	Quarterly	Monthly
November 1988 <sup>28</sup>				
Applicable Federal Rate AFR	8.41%	Short-Term		8.10%
110% AFR	9.27%	8.24%	8.16%	8.89%
120% AFR	10.13%	9.06%	8.96%	9.69%
		9.89%	9.77%	
		Mid-Term		
AFR	8.91%	8.72%	8.63%	8.57%
110% AFR	9.82%	9.59%	9.48%	9.40%
120% AFR	10.73%	10.46%	10.33%	10.24%
		Long-Term		
AFR	9.16%	9.96%	8.86%	8.80%
110% AFR	10.10%	9.86%	9.74%	9.66%
120% AFR	11.04%	10.75%	10.61%	10.52%
October 1988 <sup>28a</sup>				
		Short-Term		
AFR	8.56%	8.38%	8.29%	8.24%
110% AFR	9.43%	9.22%	9.12%	9.05%
120% AFR	10.31%	10.06%	9.94%	9.86%
		Mid-Term		
AFR	9.19%	8.99%	8.89%	8.83%
110% AFR	10.13%	9.89%	9.77%	9.69%
120% AFR	11.08%	10.79%	10.65%	10.56%
		Long-Term		
AFR	9.45%	9.24%	9.14%	9.07%
110% AFR	10.42%	10.16%	10.03%	9.95%
120% AFR	11.40%	11.09%	10.94%	10.84%

[Footnote §32,923 continued]

RECEIVED BY  
OFFICE OF CITY CLERK

1989 JAN -5 PM 4: 34

CAMBRIDGE MA.

Cambridge Tenants Union  
1151 Massachusetts Avenue  
Cambridge, Mass. 02138  
January 5, 1989

Cambridge City Council  
City Hall  
795 Massachusetts Avenue  
Cambridge, Mass. 02139

To the Honorable; the City Council:

At the December 19th meeting of the City Council, Councillor William Walsh introduced an order suggesting that the Cambridge Rent Control Board had set the interest rate allowed landlords for amortizing the costs of capital improvements too low, and that the Rent Board should set new, higher rates as a minimum. Councillor David Sullivan exercised his charter right and postponed any action on the order until the next council meeting.

Councillor Walsh's order is both flawed and inaccurate. His order refers to a previous order introduced by Mayor Vellucci. In fact, the previous council order concerning interest rates for capital improvements was introduced by Councillor Walsh, then amended by Councillor Duehay, and approved as amended on June 29, 1987. (Councillor Walsh voted against the amended order.) The order as amended actually called for the following:

"That the Rent Control Board conduct a study of the landlord's cost of capital incurred in financing capital improvements and then set an allowable amortization rate on capital improvements equal to the cost of capital determined by the Rent Control Board in that study to be done within one month."

A copy of the June 29, 1987 order is attached.

The Rent Board responded to the order by conducting studies of the cost of capital for landlords. A preliminary study prepared by the staff of the Rent Board was presented to the Board in December 1987. It found that in a majority of cases landlords did not borrow; otherwise it provided evidence of interest rates on loans taken out by landlords in only a handful of instances. The Board did not rely upon this study when it voted to raise the rates which large landlords obtained to 13 percent and small landlords to 15 percent.

A more substantial study was prepared by the staff of the Rent Board and presented to the Board in December 1988. It drew the following conclusions:

"Most significantly, it appears that only a small percentage of landlords actually borrow money to finance capital improvements. Of those who did report loans, all were small landlords. And of this sub-group, no one paid more than 15.07% interest, with the average rate standing at 11.39%." (p. 2 of report)


There was no evidence in the study indicating that the current interest rates set by the Board were too low or prevented landlords from recovering their full costs of financing capital improvements; on the contrary, the rates are overly generous. A copy of the Rent Board staff study of November 30, 1988, is attached.

If the Rent Board had based the interest rates it allowed on the results of the staff study, in accordance with the Council order of June 29, 1987, the Board would have set the rate at 4 percent for large landlords (that is, at the annual rate of inflation) and 11-11½ percent for small landlords. Instead, the Board effectively ignored the results of the staff survey and chose the much higher rates of 12 percent for large landlords and 15 percent for small landlords.

What the Rent Board is doing thereby is allowing many landlords to reap substantial profits while making capital improvements. This has caused some landlords to make unnecessary or overly expensive capital improvements, driving up rents excessively and reducing the number of affordable housing units in the city.

We respectfully request that the City Council reaffirm its order of June 29, 1987, and encourage the Rent Board to broaden the recent staff study by determining clear responses where data in the survey is now deemed "bad" and by using its subpoena powers to untangle the actual costs of capital in complex business operations like Resource Capitol Group, where funds for acquisition and rehabilitation are often commingled and refinancing follows shortly thereafter. We would then ask the Rent Board to set new interest rates based on this expanded study. Given what the staff survey has determined so far, we would expect that the interest rates allowed for capital improvements would be reduced considerably.

Respectfully submitted,



Michael H. Turk,  
Co-chair



# City of Cambridge

AMENDED  
(Calendar Item No. 6)

--1--

## IN CITY COUNCIL

~~May 18, 1987~~  
June 29, 1987

COUNCILLOR WALSH

- WHEREAS: The Rent Control Board on March 18, 1987 amended its Regulation 72-10 effective March 19, 1987, to lower the allowed interest rates on capital improvements from 15% to 10% for large landlords and from 15% to 14% for small landlords; and
- WHEREAS: These new allowed interest rates clearly appear to be less than the costs of capital that landlords incur in financing capital improvements; now therefore be it
- ORDERED: That the Rent Control Board conduct a study of the landlord's cost of capital incurred in financing capital improvements and then set an allowable amortization rate on capital improvements equal to the cost of capital determined by the Rent Control Board in that study to be done within one month.

In City Council June 29, 1987.  
Adopted by a ye and nay vote:-  
Yeas 5; Nays 4; Absent 0.  
Attest:- Joseph E. Connarton, City Clerk.

A true copy;

ATTEST:-

*Joseph E. Connarton*  
Joseph E. Connarton, City Clerk.

MEMO

To: The Board  
From: Peter Zimmerman, Hearing Examiner  
Re: Interest Rates on Capital Improvements  
Date: November 30, 1988

Attachments:

- A -- Interest Survey included in Reg. 76 petitions since June '88.
- B -- Interest Rate Survey Data from 1987 Reg.-76 Petitions.
- C -- November 1988 Applicable Federal Interest Rates Table.

Pursuant to Reg. 72-10 amortization rates for capital improvement completed in 1989 will be determined on the following basis:

Rate "A", for small landlords will be set at seven percentage points above the November 1988 long-term AFI, rounded to the nearest whole number. "If this method results in a rate above 15% or below 12%, the change will be effective only if approved by the Rent Control Board."

Rate "B", for large landlords will be determined by subtracting four percentage points from rate "A".

This results in the following possible interest rates for next year:

If approved above 15%

A = AFI + 7%  
A = 9.16% + 7%  
A = 16%

B = A - 4%  
B = 12%

If capped at 15%

A = 15%  
B = 12%

*attached  
1/1/89  
72-10*

The Interest Rate Survey

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Since the beginning of the collection period in June of this year, a significant percentage of the petitions have yielded incomplete data. This can be attributed to the lag time between the distribution of the survey and the point at which landlords

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### Recommendations

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The Board should engage in research to establish policies that go beyond the neutral standard of neither encouraging nor discouraging capital expenditures. Certain types of work which are consistent with the objective of maintaining and enhancing the city's housing stock should be encouraged. This could be accomplished either through the use of a multi-level interest schedule (higher interest for vital work), or by creating a class of capital improvements that would not be rescinded until they were actually replaced. These non-rescinding caps could go into place with a lower interest rate than is presently allowed, while still offering encouragement to landlords.

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The filing fee will be included as an expense in this adjustment. The yearly amount will be determined by dividing the filing fee by the shortest useful life of an allowed improvement.

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Yes (go to #2)       No (go to #3)

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term(s): \_\_\_\_\_

cost of fees or points: \_\_\_\_\_

name of lending institution(s) \_\_\_\_\_  
(or credit company)

improvement(s) for which borrowed funds were used: \_\_\_\_\_

3. If no, was it because you tried but could not get financing?

Yes  No

Name(s) of institution which rejected application: \_\_\_\_\_

IX. Additional Information:

Is there any other information that the Rent Control Board should know in consideration of this petition?

Yes  No

Is yes, explain:

I am  I am not claiming the higher interest rate available to owners of less than 35 units.

NOTE: If the higher interest rate is being claimed, the attached affidavit must be completed.

The foregoing statements in this petition are true to the best of my knowledge and belief.

\_\_\_\_\_  
DATE

\_\_\_\_\_  
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688124	Walden	304	1	6400		Sml	Bad	Bad					
688125	Highland	78	6	29800		Sml	No	No					
688125	Fayerweat	95	3	6100		Sml	Bad	Bad					
688127	Bristol	32	3	9650		Sml	No	No					
688128	Mellen	18	5	1975		Lrg	No	No					
688129	Howland	10	2	9200		Lrg	Bad	Bad					
688131	Banks	132-134	2	2525		Lrg	No	No					
688133	Mellen	20	2	4099		Lrg	No	No					
688135	Forest	16-18A	57	204323		Lrg	Bad	Bad					
688136	Forest	17-19A	66	171077		Lrg	Bad	Bad					
688141	Brookline	322	6	2400		Lrg	No	No					
688144	Hampshire	134-136	4	7200		Sml	No	No					
688147	Sacrament	24	2	2880		Lrg	No	No					
688148	Wendell	84	6	4353		Lrg	No	No					
688149	Banks	33-35	2	7172		Lrg	No	No					
688150	PorterSt	24-28	4	9680		Sml	Bad	Bad					
688155	Harvard	213	2	10754		Sml	Yes	Yes	50000	12.75	180	900	
688157	Plymouth	48-50	6	4580		Lrg	Bad	Bad					
688158	Antrim	16-18	4	17106		Sml	Yes	Yes	30000	10.75	240	0	
688172	Putnam	417	1	2781		Sml	No	No					
688179	Frost	64	5	2387		Sml	Bad	Bad					
688180	Walden	110-112	2	15433		Sml	No	No					
688181	Putnam	49-51	3	5681		Sml	No	No					
688182	Cambridge	1590	6	14810		Sml	No	No					
688183	Garden	24	1	946		Sml	No	No					
688188	Garden	26-28	8	21878		Lrg	No	No					
688190	Hurley	317-321				Bad	Bad	Bad					
688191	Sacrament	31A	3	72304		Sml	Bad	Bad					
688192	Broadway	257-257	4	5580		Sml	No	No					
688193	Concord	3	1	1700		Bad	Bad	Bad					
688194	Waterhouse	1	1	1006		Bad	Bad	Bad					
688195	Winter	83	1			Bad	Bad	Bad					
688197	Prince	70-72	2	1600		Sml	No	No					
688200	Brookline					Bad	Bad	Bad					
688201	Langdon	1-3	33			Bad	Bad	Bad					
688204	clinton	2	1	1280		Sml	Bad	Bad					
688205	clinton	2	1	1280		Sml	Bad	Bad					
688206	clinton	2	1	1696		Sml	Bad	Bad					
688207	clinton	2	1	1317		Sml	Bad	Bad					
688208	clinton	2	1	1280		Sml	Bad	Bad					
688209	clinton	2	1	874		Sml	Bad	Bad					
688210	Hurley	307-313	6	4689		Bad	Bad	Bad					
688211	Hamilton	144	1	4381		Sml	No	No					

Case #	Street	#	Unts	AMT	ALLWD	Sml	ln	Tried	AMT	Ln	Rate	Term	points
688212	Elm	200	6	23463		Sml	No	No					
688213	Harvard	217	6	10674		Sml	Yes	Yes	50000	12.75	180	900	
688215	Broadway	448	6	80		Sml	Yes	Yes	11400	10	Bad	0	
688216	Broadway	452	6	80		Sml	Yes	Yes	Bad	10	Bad	0	
688217	Franklin	348	1	2928		Sml	Yes	Yes	2500	10	12	0	
688218	Ware	17	1	5671		Lrg	No	No					
688219	Garfield	54	6	9370		Sml	No	No					
688220	Mt. Aubur	22h-24	4			Bad	Bad	Bad					
688221	Plympton	8	2	34885		Lrg	No	No					
688223	Parker	32	1			Bad	Bad	Bad					
688228	Prospect	374-376	3			Bad	Bad	Bad					
688231	Carver	2	3	32371		Sml	No	No					
688232	Foster	58-60	2	7648		Sml	Yes	Yes	6000	11	0	350	
688236	Lawrence	3-7	5	13200		Sml	No	Yes					
688239	Franklin	185	7	11500		Sml	No	No					
688244	May	41-43	6	5400		Sml	Yes	Yes	6000	9	Bad	0	
688245	Glenwood	28-30	6			Bad	Bad	Bad					
688246	Greenough	2-4	10	2850		Lrg	No	No					
688247	Oxford	123	13	2400		Lrg	No	No					
688249	Cambridge	1431	5			Bad	Bad	Bad					
688250	Hammond	84-90	3			Bad	Bad	Bad					
688251	Prescott	20	1	10407		Lrg	No	No					
688253	Norfolk	90	8			Sml	Bad	Bad					
688288	Prospect	374-37	3			Bad	Bad	Bad					
688320	Green	694-70	220	5950		Sml	No	No					
688321	Hurley	317-321	6	5648		Lrg	No	No					
688334	Elm	297	1	7036		Lrg	No	No					
688335	Mass	1200	94	35580		Lrg	Bad	Bad					
688337	Broadway	373-375	21	7065		Sml	No	No					
688338	GardenCt	4	1			Bad	Bad	Bad					
688339	Hammond	74	2	10643		Lrg	No	No					
688340	Grant	12	1			Bad	Bad	Bad					
688341	Athens	3	1	7667		Lrg	No	No					
688342	Garfield	44	5			Bad	Bad	Bad					
688343	AthensTer	1	1			Bad	Bad	Bad					
688344	Sparks	67	1			Bad	Bad	Bad					
688345	Prescott	24	1	2520		Lrg	No	No					
688346	Plympton	101-102	3	3031		Lrg	No	No					
688348	Concord	286	6	13245		Sml	Yes	Yes	10000	Bad	Bad	Bad	
688351	Oxford	106-110	12	3563		Lrg	No	No					
688359	Magazine	48	6	3721		Sml	Yes	Yes	3260	15.07	36	0	
688360	Winter	89	1			Bad	Bad	Bad					
688361	Norfolk	160	2	10982		Lrg	No	No					
688364	Windsor	357-359	6			Bad	Bad	Bad					
688367	Broadway	381	5	4648		Sml	No	No					
688372	Ware	9-13A	6	17525		Lrg	No	No					
688376	Shea	31	1	7250		Sml	Bad	Bad					
688403	Kelly	23A	3	3100		Sml	No	No					
688409	Cambridge	1423				Bad	Bad	Bad					
	Davenport	8	4	22000		Sml	Bad	Bad					
	Western	381	1	d		Bad	Bad	Bad					
	Binny	472				Bad	Bad	Bad					

(term of 3 years or less), mid-term debt instruments (over 3 years but not more than 9 years), and long-term debt instruments (term of over 9 years). The columns reflect minimum rates to use if interest is compounded monthly, quarterly, semiannually or annually. *Note:* The interest rates in the monthly, quarterly and annual compounding columns are equivalent rates to semiannual compounding which is statutorily required.

»HOW TO USE THE TABLES→ First find the table for the appropriate month and the subdivision of the table with the same term as the debt instrument or other transaction. Now find the row with the Applicable Federal Rate percentage (100%, 110%, or 120% of AFR) that must be used for the transaction. See editorials referenced above. The interest rate in the column with the compounding period you are using is the AFR that applies unless a sale or exchange is involved. Sales or exchanges get a special break; the AFR to use is the lowest rate for the 3-month period ending with the month in which a binding written contract is entered into. So check the appropriate row and column of the Tables for the 2 months preceding the sale or exchange to find the lowest interest rate percentage to use.

*Note:* Monthly interest tables were provided starting with Jan. 1985. The semiannual tables were ended after 6-30-85.

»LOWER RATES MAY BE AVAILABLE→ Regs. may allow lower interest rates to be used if it is established to the satisfaction of IRS that the rates are based on the same principles as AFRs and they are appropriate for the term of the debt instruments. In addition, some transactions automatically qualify for lower interest rates than appear in the tables. So be sure to check the appropriate editorials referenced above.

## MONTHLY INTEREST RATES TABLES

	Annual	Semiannual	Quarterly	Monthly
November 1988 <sup>28</sup>				
Applicable Federal Rate AFR	8.41%	Short-Term		
110% AFR	9.27%	8.24%	8.16%	8.10%
120% AFR	10.13%	9.06%	8.96%	8.89%
		9.89%	9.77%	9.69%
		Mid-Term		
AFR	8.91%	8.72%	8.63%	8.57%
110% AFR	9.82%	9.59%	9.48%	9.40%
120% AFR	10.73%	10.46%	10.33%	10.24%
		Long-Term		
AFR	9.16%	9.96%	8.86%	8.80%
110% AFR	10.10%	9.86%	9.74%	9.66%
120% AFR	11.04%	10.75%	10.61%	10.52%
October 1988 <sup>28a</sup>				
		Short-Term		
AFR	8.56%	8.38%	8.29%	8.24%
110% AFR	9.43%	9.22%	9.12%	9.05%
120% AFR	10.31%	10.06%	9.94%	9.86%
		Mid-Term		
AFR	9.19%	8.99%	8.89%	8.83%
110% AFR	10.13%	9.89%	9.77%	9.69%
120% AFR	11.08%	10.79%	10.65%	10.56%
		Long-Term		
AFR	9.45%	9.24%	9.14%	9.07%
110% AFR	10.42%	10.16%	10.03%	9.95%
120% AFR	11.40%	11.09%	10.94%	10.84%

RECEIVED BY  
OFFICE OF CITY CLERK

1989 JAN -5 PM 4:34

CAMBRIDGE MA.

Cambridge Tenants Union  
1151 Massachusetts Avenue  
Cambridge, Mass. 02138  
January 5, 1989

Cambridge City Council  
City Hall  
795 Massachusetts Avenue  
Cambridge, Mass. 02139

To the Honorable; the City Council:

At the December 19th meeting of the City Council, Councillor William Walsh introduced an order suggesting that the Cambridge Rent Control Board had set the interest rate allowed landlords for amortizing the costs of capital improvements too low, and that the Rent Board should set new, higher rates as a minimum. Councillor David Sullivan exercised his charter right and postponed any action on the order until the next council meeting.

Councillor Walsh's order is both flawed and inaccurate. His order refers to a previous order introduced by Mayor Vellucci. In fact, the previous council order concerning interest rates for capital improvements was introduced by Councillor Walsh, then amended by Councillor Duehay, and approved as amended on June 29, 1987. (Councillor Walsh voted against the amended order.) The order as amended actually called for the following:

"That the Rent Control Board conduct a study of the landlord's cost of capital incurred in financing capital improvements and then set an allowable amortization rate on capital improvements equal to the cost of capital determined by the Rent Control Board in that study to be done within one month."

A copy of the June 29, 1987 order is attached.

The Rent Board responded to the order by conducting studies of the cost of capital for landlords. A preliminary study prepared by the staff of the Rent Board was presented to the Board in December 1987. It found that in a majority of cases landlords did not borrow; otherwise it provided evidence of interest rates on loans taken out by landlords in only a handful of instances. The Board did not rely upon this study when it voted to raise the rates which large landlords obtained to 13 percent and small landlords to 15 percent.

A more substantial study was prepared by the staff of the Rent Board and presented to the Board in December 1988. It drew the following conclusions:

"Most significantly, it appears that only a small percentage of landlords actually borrow money to finance capital improvements. Of those who did report loans, all were small landlords. And of this sub-group, no one paid more than 15.07% interest, with the average rate standing at 11.39%." (p. 2 of report)

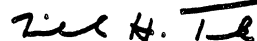
There was no evidence in the study indicating that the current interest rates set by the Board were too low or prevented landlords from recovering their full costs of financing capital improvements; on the contrary, the rates are overly generous. A copy of the Rent Board staff study of November 30, 1988, is attached.

If the Rent Board had based the interest rates it allowed on the results of the staff study, in accordance with the Council order of June 29, 1987, the Board would have set the rate at 4 percent for large landlords (that is, at the annual rate of inflation) and 11-11½ percent for small landlords. Instead, the Board effectively ignored the results of the staff survey and chose the much higher rates of 12 percent for large landlords and 15 percent for small landlords.

What the Rent Board is doing thereby is allowing many landlords to reap substantial profits while making capital improvements. This has caused some landlords to make unnecessary or overly expensive capital improvements, driving up rents excessively and reducing the number of affordable housing units in the city.

We respectfully request that the City Council reaffirm its order of June 29, 1987, and encourage the Rent Board to broaden the recent staff study by determining clear responses where data in the survey is now deemed "bad" and by using its subpoena powers to untangle the actual costs of capital in complex business operations like Resource Capitol Group, where funds for acquisition and rehabilitation are often commingled and refinancing follows shortly thereafter. We would then ask the Rent Board to set new interest rates based on this expanded study. Given what the staff survey has determined so far, we would expect that the interest rates allowed for capital improvements would be reduced considerably.

Respectfully submitted,



Michael H. Turk,  
Co-chair



# City of Cambridge

AMENDED  
(Calendar Item No. 6)

--1--

## IN CITY COUNCIL

~~May 18, 1987~~  
June 29, 1987

COUNCILLOR WALSH

- WHEREAS: The Rent Control Board on March 18, 1987 amended its Regulation 72-10 effective March 19, 1987, to lower the allowed interest rates on capital improvements from 15% to 10% for large landlords and from 15% to 14% for small landlords; and
- WHEREAS: These new allowed interest rates clearly appear to be less than the costs of capital that landlords incur in financing capital improvements; now therefore be it
- ORDERED: That the Rent Control Board conduct a study of the landlord's cost of capital incurred in financing capital improvements and then set an allowable amortization rate on capital improvements equal to the cost of capital determined by the Rent Control Board in that study to be done within one month.

In City Council June 29, 1987.  
Adopted by a yea and nay vote:-  
Yeas 5; Nays 4; Absent 0.  
Attest:- Joseph E. Connarton, City Clerk.

A true copy;

ATTEST:-

*Joseph E. Connarton*  
Joseph E. Connarton, City Clerk.

MEMO

To: The Board  
From: Peter Zimmerman, Hearing Examiner  
Re: Interest Rates on Capital Improvements  
Date: November 30, 1988

Attachments:

- A -- Interest Survey included in Reg. 76 petitions since June '88.
- B -- Interest Rate Survey Data from 1987 Reg.-76 Petitions.
- c -- November 1988 Applicable Federal Interest Rates Table.

Pursuant to Reg. 72-10 amortization rates for capital improvement completed in 1989 will be determined on the following basis:

Rate "A", for small landlords will be set at seven percentage points above the November 1988 long-term AFI, rounded to the nearest whole number. "If this method results in a rate above 15% or below 12%, the change will be effective only if approved by the Rent Control Board."

Rate "B", for large landlords will be determined by subtracting four percentage points from rate "A".

This results in the following possible interest rates for next year:

If approved above 15%

A = AFI + 7%  
A = 9.16% + 7%  
A = 16%  
  
B = A - 4%  
B = 12%

If capped at 15%

A = 15%  
  
B = 12%

*attached  
1/1/89  
72-10*

The Interest Rate Survey

At the request of the Board, the Rent Control Staff has undertaken a survey of landlords filing RA petitions to determine trends in capital improvement financing. It is the purpose of this ongoing project to determine who is borrowing to finance capital improvements, and what interest rate they are paying.

Since the beginning of the collection period in June of this year, a significant percentage of the petitions have yielded incomplete data. This can be attributed to the lag time between the distribution of the survey and the point at which landlords

exhausted their supply of old petitions. Another contributing factor to this problem was the lack of a clearly defined procedure for ensuring that the survey section of the petitions were completely filled out. At this point in time Mr. Packer, the Senior Hearing Examiner, is sending incomplete petitions back to Hearing Officers to collect all required information.

Despite these collection problems, there is no indication that any class of landlord has been misrepresented in the complete data set, and certain tentative conclusions can be drawn. Most significantly, it appears that only a small percentage of landlords actually borrow money to finance capital improvements. Of those who did report loans, all were small landlords. And of this sub-group, no one paid more than 15.07% interest, with the average rate standing at 11.39%. There was little data with which to establish trends for the length of repayment periods, they ranged from between 12 and 240 months.

### Recommendations

Since the few who have borrowed money have been able to obtain interest rates in the 11 to 12% range, interest rates for class "A" landlords should be capped at 15%. This figure is clearly above the borrowing cost for almost all landlords, and should not serve as a disincentive to those contemplating major capital improvements.

The Board should engage in research to establish policies that go beyond the neutral standard of neither encouraging nor discouraging capital expenditures. Certain types of work which are consistent with the objective of maintaining and enhancing the city's housing stock should be encouraged. This could be accomplished either through the use of a multi-level interest schedule (higher interest for vital work), or by creating a class of capital improvements that would not be rescinded until they were actually replaced. These non-rescinding caps could go into place with a lower interest rate than is presently allowed, while still offering encouragement to landlords.

VI. Special Case: Energy Conservation Improvements:

According to Regulation 76-05(a), the cost of capital improvements considered energy-saving may be amortized at an interest rate and over a useful life equal to the terms of a loan granted to finance the expense of the work. Any loan must be given by a recognized lending institution and a copy of the agreement must be attached to this petition. A loan to cover the installation of storm windows will be amortized over not less than five years.

If the owner installs individual heating systems to remove heat as a service provided to the tenants, the owner must insulate or show proof of insulation in the building roof to the State Standard of R-20. If such insulation value is not provided, the cost of converting the heating system will not be amortized according to the terms of the loan, but at the rate outlines in Regulation 72-10. The owner should be aware that if heat is eliminated as a service included in the rent, the examiner shall calculate a reduction in rent which is equal to the amount currently in the legal maximum rent as the cost of heat.

VII. Filing Fee:

The filing fee will be included as an expense in this adjustment. The yearly amount will be determined by dividing the filing fee by the shortest useful life of an allowed improvement.

VIII. Interest Rate Survey:

This section must be completed before the petition will be docketed. The information supplied will not in any way effect the interest rate allocated for the improvements claimed herein.

1. Did you borrow money to finance any of the capital improvements included in this petition?

Yes (go to #2)       No (go to #3)

2. If yes, please state:

amount(s) borrowed: \_\_\_\_\_

rate(s): \_\_\_\_\_

term(s): \_\_\_\_\_

cost of fees or points: \_\_\_\_\_

name of lending institution(s) \_\_\_\_\_  
(or credit company)

improvement(s) for which borrowed funds were used: \_\_\_\_\_

3. If no, was it because you tried but could not get financing?

Yes  No

Name(s) of institution which rejected application: \_\_\_\_\_

IX. Additional Information:

Is there any other information that the Rent Control Board should know in consideration of this petition?

Yes  No

Is yes, explain:

I am  I am not claiming the higher interest rate available to owners of less than 35 units.

NOTE: If the higher interest rate is being claimed, the attached affidavit must be completed.

The foregoing statements in this petition are true to the best of my knowledge and belief.

\_\_\_\_\_  
DATE

\_\_\_\_\_  
PETITIONER'S SIGNATURE

## Loan Survey Calculations

Number of Cases:	114
complete Data:	69
Bad Data:	45
Avrg AMT Allowed:	\$13,462.83
Avrg Loan Rate:	11.39 %
Avrg Amt Loan:	\$17,650.91

Total Small LL:	39
Small No Loan & Did Not Try:	26
Small W Loan:	12
Avrg Sml Ln:	\$17,650.91
Avrg Sml Ln Rate:	11.39 %
Small Denied L:	1

Total Large LL:	30
Large W/O Loan:	30
Large Denied L:	0

Case #	Street	#	Unts	AMT	ALLWD	Sml	ln	Tried	AMT	Ln	Rate	Term	points
288069	Inman	39-41		27150		Lrg	No	No					
687400	Banks	28-30	4	19814		Lrg	No	No					
688087	Charles	228	8	4900		Sml	No	No					
688096	Notre Dam	6-8	4	9880		Sml	Yes	Yes	10000	9.95	0	500	
688107	Norfolk	86	4	3965		Sml	Bad	Bad					
688111	Shepard	14	10	12800		Sml	Yes	Yes	15000	14	120	Bad	
688112	Gore	16	3	4500		Sml	No	No					
688114	Wendall	11	5	2800		Sml	No	No					
688116	Essex	21	7	1700		Sml	No	No					
688118	Fairfield	25	6	8100		Sml	No	No					
688119	Hurley	62-64	6	26616		Sml	No	No					
688120	Norfolk	345	6	13000		Sml	No	No					
688124	Flagg	11	4	4300		Lrg	Bad	Bad					
688124	Walden	304	1	6400		Sml	Bad	Bad					
688125	Highland	78	6	29800		Sml	No	No					
688125	Fayerweat	95	3	6100		Sml	Bad	Bad					
688127	Bristol	32	3	9650		Sml	No	No					
688128	Mellen	18	5	1975		Lrg	No	No					
688129	Howland	10	2	9200		Lrg	Bad	Bad					
688131	Banks	132-134	2	2525		Lrg	No	No					
688133	Mellen	20	2	4099		Lrg	No	No					
688135	Forest	16-18A	57	204323		Lrg	Bad	Bad					
688136	Forest	17-19A	66	171077		Lrg	Bad	Bad					
688141	Brookline	322	6	2400		Lrg	No	No					
688144	Hampshire	134-136	4	7200		Sml	No	No					
688147	Sacrament	24	2	2880		Lrg	No	No					
688148	Wendell	84	6	4353		Lrg	No	No					
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688155	Harvard	213	2	10754		Sml	Yes	Yes	50000	12.75	180	900	
688157	Plymouth	48-50	6	4580		Lrg	Bad	Bad					
688158	Antrim	16-18	4	17106		Sml	Yes	Yes	30000	10.75	240	0	
688172	Putnam	417	1	2781		Sml	No	No					
688179	Frost	64	5	2387		Sml	Bad	Bad					
688180	Walden	110-112	2	15433		Sml	No	No					
688181	Putnam	49-51	3	5681		Sml	No	No					
688182	Cambridge	1590	6	14810		Sml	No	No					
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688190	Hurley	317-321				Bad	Bad	Bad					
688191	Sacrament	31A	3	72304		Sml	Bad	Bad					
688192	Broadway	257-257	4	5580		Sml	No	No					
688193	Concord	3	1	1700		Bad	Bad	Bad					
688194	Waterhous	1	1	1006		Bad	Bad	Bad					
688195	Winter	83	1			Bad	Bad	Bad					
688197	Prince	70-72	2	1600		Sml	No	No					
688200	Brookline					Bad	Bad	Bad					
688201	Langdon	1-3	33			Bad	Bad	Bad					
688204	clinton	2	1	1280		Sml	Bad	Bad					
688205	clinton	2	1	1280		Sml	Bad	Bad					
688206	clinton	2	1	1696		Sml	Bad	Bad					
688207	clinton	2	1	1317		Sml	Bad	Bad					
688208	clinton	2	1	1280		Sml	Bad	Bad					
688209	clinton	2	1	874		Sml	Bad	Bad					
688210	Hurley	307-313	6	4689		Bad	Bad	Bad					
688211	Hamilton	144	1	4381		Sml	No	No					

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688215	Broadway	448	6	80		Sml	Yes	Yes	11400	10	Bad	0	
688216	Broadway	452	6	80		Sml	Yes	Yes	Bad	10	Bad	0	
688217	Franklin	348	1	2928		Sml	Yes	Yes	2500	10	12	0	
688218	Ware	17	1	5671		Lrg	No	No					
688219	Garfield	54	6	9370		Sml	No	No					
688220	Mt. Aubur	22h-24	4			Bad	Bad	Bad					
688221	Plympton	8	2	34885		Lrg	No	No					
688223	Parker	32	1			Bad	Bad	Bad					
688228	Prospect	374-376	3			Bad	Bad	Bad					
688231	Carver	2	3	32371		Sml	No	No					
688232	Foster	58-60	2	7648		Sml	Yes	Yes	6000	11	0	350	
688236	Lawrence	3-7	5	13200		Sml	No	Yes					
688239	Franklin	185	7	11500		Sml	No	No					
688244	May	41-43	6	5400		Sml	Yes	Yes	6000	9	Bad	0	
688245	Glenwood	28-30	6			Bad	Bad	Bad					
688246	Greenough	2-4	10	2850		Lrg	No	No					
688247	Oxford	123	13	2400		Lrg	No	No					
688249	Cambridge	1431	5			Bad	Bad	Bad					
688250	Hammond	84-90	3			Bad	Bad	Bad					
688251	Prescott	20	1	10407		Lrg	No	No					
688253	Norfolk	90	8			Sml	Bad	Bad					
688288	Prospect	374-37	3			Bad	Bad	Bad					
688320	Green	694-70	220	5950		Sml	No	No					
688321	Hurley	317-321	6	5648		Lrg	No	No					
688334	Elm	297	1	7036		Lrg	No	No					
688335	Mass	1200	94	35580		Lrg	Bad	Bad					
688337	Broadway	373-375	21	7065		Sml	No	No					
688338	Garden	Ct 4	1			Bad	Bad	Bad					
688339	Hammond	74	2	10643		Lrg	No	No					
688340	Grant	12	1			Bad	Bad	Bad					
688341	Athens	3	1	7667		Lrg	No	No					
688342	Garfield	44	5			Bad	Bad	Bad					
688343	Athens	Ter 1	1			Bad	Bad	Bad					
688344	Sparks	67	1			Bad	Bad	Bad					
688345	Prescott	24	1	2520		Lrg	No	No					
688346	Plympton	101-102	3	3031		Lrg	No	No					
688348	Concord	286	6	13245		Sml	Yes	Yes	10000	Bad	Bad	Bad	
688351	Oxford	106-110	12	3563		Lrg	No	No					
688359	Magazine	48	6	3721		Sml	Yes	Yes	3260	15.07	36	0	
688360	Winter	89	1			Bad	Bad	Bad					
688361	Norfolk	160	2	10982		Lrg	No	No					
688364	Windsor	357-359	6			Bad	Bad	Bad					
688367	Broadway	381	5	4648		Sml	No	No					
688372	Ware	9-13A	6	17525		Lrg	No	No					
688376	Shea	31	1	7250		Sml	Bad	Bad					
688403	Kelly	23A	3	3100		Sml	No	No					
688409	Cambridge	1423				Bad	Bad	Bad					
	Davenport	8	4	22000		Sml	Bad	Bad					
	Western	381	1	d		Bad	Bad	Bad					
	Binny	472				Bad	Bad	Bad					

(term of 3 years or less), mid-term debt instruments (over 3 years but not more than 9 years), and long-term debt instruments (term of over 9 years). The columns reflect minimum rates to use if interest is compounded monthly, quarterly, semiannually or annually. *Note:* The interest rates in the monthly, quarterly and annual compounding columns are equivalent rates to semiannual compounding which is statutorily required.

»HOW TO USE THE TABLES→ First find the table for the appropriate month and the subdivision of the table with the same term as the debt instrument or other transaction. Now find the row with the Applicable Federal Rate percentage (100%, 110%, or 120% of AFR) that must be used for the transaction. See editorials referenced above. The interest rate in the column with the compounding period you are using is the AFR that applies unless a sale or exchange is involved. Sales or exchanges get a special break; the AFR to use is the lowest rate for the 3-month period ending with the month in which a binding written contract is entered into. So check the appropriate row and column of the Tables for the 2 months preceding the sale or exchange to find the lowest interest rate percentage to use.

*Note:* Monthly interest tables were provided starting with Jan. 1985. The semiannual tables were ended after 6-30-85.

»LOWER RATES MAY BE AVAILABLE→ Regs. may allow lower interest rates to be used if it is established to the satisfaction of IRS that the rates are based on the same principles as AFRs and they are appropriate for the term of the debt instruments. In addition, some transactions automatically qualify for lower interest rates than appear in the tables. So be sure to check the appropriate editorials referenced above.

## MONTHLY INTEREST RATES TABLES

	Annual	Semiannual	Quarterly	Monthly
November 1988 <sup>28</sup>				
Applicable Federal Rate AFR	8.41%	Short-Term		8.10%
110% AFR	9.27%	8.24%	8.16%	8.89%
120% AFR	10.13%	9.06%	8.96%	9.69%
		9.89%	9.77%	
		Mid-Term		
AFR	8.91%	8.72%	8.63%	8.57%
110% AFR	9.82%	9.59%	9.48%	9.40%
120% AFR	10.73%	10.46%	10.33%	10.24%
		Long-Term		
AFR	9.16%	9.96%	8.86%	8.80%
110% AFR	10.10%	9.86%	9.74%	9.66%
120% AFR	11.04%	10.75%	10.61%	10.52%
October 1988 <sup>28a</sup>				
		Short-Term		
AFR	8.56%	8.38%	8.29%	8.24%
110% AFR	9.43%	9.22%	9.12%	9.05%
120% AFR	10.31%	10.06%	9.94%	9.86%
		Mid-Term		
AFR	9.19%	8.99%	8.89%	8.83%
110% AFR	10.13%	9.89%	9.77%	9.69%
120% AFR	11.08%	10.79%	10.65%	10.56%
		Long-Term		
AFR	9.45%	9.24%	9.14%	9.07%
110% AFR	10.42%	10.16%	10.03%	9.95%
120% AFR	11.40%	11.09%	10.94%	10.84%

RECEIVED BY  
OFFICE OF CITY CLERK

1989 JAN -5 PM 4: 34

CAMBRIDGE MA.

Cambridge Tenants Union  
1151 Massachusetts Avenue  
Cambridge, Mass. 02138  
January 5, 1989

Cambridge City Council  
City Hall  
795 Massachusetts Avenue  
Cambridge, Mass. 02139

To the Honorable; the City Council:

At the December 19th meeting of the City Council, Councillor William Walsh introduced an order suggesting that the Cambridge Rent Control Board had set the interest rate allowed landlords for amortizing the costs of capital improvements too low, and that the Rent Board should set new, higher rates as a minimum. Councillor David Sullivan exercised his charter right and postponed any action on the order until the next council meeting.

Councillor Walsh's order is both flawed and inaccurate. His order refers to a previous order introduced by Mayor Vellucci. In fact, the previous council order concerning interest rates for capital improvements was introduced by Councillor Walsh, then amended by Councillor Duehay, and approved as amended on June 29, 1987. (Councillor Walsh voted against the amended order.) The order as amended actually called for the following:

"That the Rent Control Board conduct a study of the landlord's cost of capital incurred in financing capital improvements and then set an allowable amortization rate on capital improvements equal to the cost of capital determined by the Rent Control Board in that study to be done within one month."

A copy of the June 29, 1987 order is attached.

The Rent Board responded to the order by conducting studies of the cost of capital for landlords. A preliminary study prepared by the staff of the Rent Board was presented to the Board in December 1987. It found that in a majority of cases landlords did not borrow; otherwise it provided evidence of interest rates on loans taken out by landlords in only a handful of instances. The Board did not rely upon this study when it voted to raise the rates which large landlords obtained to 13 percent and small landlords to 15 percent.

A more substantial study was prepared by the staff of the Rent Board and presented to the Board in December 1988. It drew the following conclusions:

"Most significantly, it appears that only a small percentage of landlords actually borrow money to finance capital improvements. Of those who did report loans, all were small landlords. And of this sub-group, no one paid more than 15.07% interest, with the average rate standing at 11.39%." (p. 2 of report)

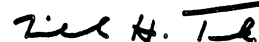
There was no evidence in the study indicating that the current interest rates set by the Board were too low or prevented landlords from recovering their full costs of financing capital improvements; on the contrary, the rates are overly generous. A copy of the Rent Board staff study of November 30, 1988, is attached.

If the Rent Board had based the interest rates it allowed on the results of the staff study, in accordance with the Council order of June 29, 1987, the Board would have set the rate at 4 percent for large landlords (that is, at the annual rate of inflation) and 11-11½ percent for small landlords. Instead, the Board effectively ignored the results of the staff survey and chose the much higher rates of 12 percent for large landlords and 15 percent for small landlords.

What the Rent Board is doing thereby is allowing many landlords to reap substantial profits while making capital improvements. This has caused some landlords to make unnecessary or overly expensive capital improvements, driving up rents excessively and reducing the number of affordable housing units in the city.

We respectfully request that the City Council reaffirm its order of June 29, 1987, and encourage the Rent Board to broaden the recent staff study by determining clear responses where data in the survey is now deemed "bad" and by using its subpoena powers to untangle the actual costs of capital in complex business operations like Resource Capitol Group, where funds for acquisition and rehabilitation are often commingled and refinancing follows shortly thereafter. We would then ask the Rent Board to set new interest rates based on this expanded study. Given what the staff survey has determined so far, we would expect that the interest rates allowed for capital improvements would be reduced considerably.

Respectfully submitted,



Michael H. Turk,  
Co-chair



# City of Cambridge

AMENDED  
(Calendar Item No. 6)

--1--

IN CITY COUNCIL

~~May 18, 1987~~  
June 29, 1987

COUNCILLOR WALSH

- WHEREAS: The Rent Control Board on March 18, 1987 amended its Regulation 72-10 effective March 19, 1987, to lower the allowed interest rates on capital improvements from 15% to 10% for large landlords and from 15% to 14% for small landlords; and
- WHEREAS: These new allowed interest rates clearly appear to be less than the costs of capital that landlords incur in financing capital improvements; now therefore be it
- ORDERED: That the Rent Control Board conduct a study of the landlord's cost of capital incurred in financing capital improvements and then set an allowable amortization rate on capital improvements equal to the cost of capital determined by the Rent Control Board in that study to be done within one month.

In City Council June 29, 1987.  
Adopted by a yea and nay vote:-  
Yeas 5; Nays 4; Absent 0.  
Attest:- Joseph E. Connarton, City Clerk.

A true copy;

ATTEST:-

*Joseph E. Connarton*  
Joseph E. Connarton, City Clerk.

MEMO

To: The Board  
From: Peter Zimmerman, Hearing Examiner  
Re: Interest Rates on Capital Improvements  
Date: November 30, 1988

Attachments:

- A -- Interest Survey included in Reg. 76 petitions since June '88.
- B -- Interest Rate Survey Data from 1987 Reg.-76 Petitions.
- c -- November 1988 Applicable Federal Interest Rates Table.

Pursuant to Reg. 72-10 amortization rates for capital improvement completed in 1989 will be determined on the following basis:

Rate "A", for small landlords will be set at seven percentage points above the November 1988 long-term AFI, rounded to the nearest whole number. "If this method results in a rate above 15% or below 12%, the change will be effective only if approved by the Rent Control Board."

Rate "B", for large landlords will be determined by subtracting four percentage points from rate "A".

This results in the following possible interest rates for next year:

If approved above 15%

A = AFI + 7%  
A = 9.16% + 7%  
A = 16%

B = A - 4%  
B = 12%

If capped at 15%

A = 15%  
B = 12%

*attached  
11/1/89  
72-10*

The Interest Rate Survey

At the request of the Board, the Rent Control Staff has undertaken a survey of landlords filing RA petitions to determine trends in capital improvement financing. It is the purpose of this ongoing project to determine who is borrowing to finance capital improvements, and what interest rate they are paying.

Since the beginning of the collection period in June of this year, a significant percentage of the petitions have yielded incomplete data. This can be attributed to the lag time between the distribution of the survey and the point at which landlords

exhausted their supply of old petitions. Another contributing factor to this problem was the lack of a clearly defined procedure for ensuring that the survey section of the petitions were completely filled out. At this point in time Mr. Packer, the Senior Hearing Examiner, is sending incomplete petitions back to Hearing Officers to collect all required information.

Despite these collection problems, there is no indication that any class of landlord has been misrepresented in the complete data set, and certain tentative conclusions can be drawn. Most significantly, it appears that only a small percentage of landlords actually borrow money to finance capital improvements. Of those who did report loans, all were small landlords. And of this sub-group, no one paid more than 15.07% interest, with the average rate standing at 11.39%. There was little data with which to establish trends for the length of repayment periods, they ranged from between 12 and 240 months.

### Recommendations

Since the few who have borrowed money have been able to obtain interest rates in the 11 to 12% range, interest rates for class "A" landlords should be capped at 15%. This figure is clearly above the borrowing cost for almost all landlords, and should not serve as a disincentive to those contemplating major capital improvements.

The Board should engage in research to establish policies that go beyond the neutral standard of neither encouraging nor discouraging capital expenditures. Certain types of work which are consistent with the objective of maintaining and enhancing the city's housing stock should be encouraged. This could be accomplished either through the use of a multi-level interest schedule (higher interest for vital work), or by creating a class of capital improvements that would not be rescinded until they were actually replaced. These non-rescinding caps could go into place with a lower interest rate than is presently allowed, while still offering encouragement to landlords.

VI. Special Case: Energy Conservation Improvements:

According to Regulation 76-05(a), the cost of capital improvements considered energy-saving may be amortized at an interest rate and over a useful life equal to the terms of a loan granted to finance the expense of the work. Any loan must be given by a recognized lending institution and a copy of the agreement must be attached to this petition. A loan to cover the installation of storm windows will be amortized over not less than five years.

If the owner installs individual heating systems to remove heat as a service provided to the tenants, the owner must insulate or show proof of insulation in the building roof to the State Standard of R-20. If such insulation value is not provided, the cost of converting the heating system will not be amortized according to the terms of the loan, but at the rate outlines in Regulation 72-10. The owner should be aware that if heat is eliminated as a service included in the rent, the examiner shall calculate a reduction in rent which is equal to the amount currently in the legal maximum rent as the cost of heat.

VII. Filing Fee:

The filing fee will be included as an expense in this adjustment. The yearly amount will be determined by dividing the filing fee by the shortest useful life of an allowed improvement.

VIII. Interest Rate Survey:

This section must be completed before the petition will be docketed. The information supplied will not in any way effect the interest rate allocated for the improvements claimed herein.

1. Did you borrow money to finance any of the capital improvements included in this petition?

Yes (go to #2)       No (go to #3)

2. If yes, please state:

amount(s) borrowed: \_\_\_\_\_

rate(s): \_\_\_\_\_

term(s): \_\_\_\_\_

cost of fees or points: \_\_\_\_\_

name of lending institution(s) \_\_\_\_\_  
(or credit company)

improvement(s) for which borrowed funds were used: \_\_\_\_\_

3. If no, was it because you tried but could not get financing?

Yes  No

Name(s) of institution which rejected application: \_\_\_\_\_

IX. Additional Information:

Is there any other information that the Rent Control Board should know in consideration of this petition?

Yes  No

Is yes, explain:

I am  I am not claiming the higher interest rate available to owners of less than 35 units.

NOTE: If the higher interest rate is being claimed, the attached affidavit must be completed.

The foregoing statements in this petition are true to the best of my knowledge and belief.

\_\_\_\_\_  
DATE

\_\_\_\_\_  
PETITIONER'S SIGNATURE

## Loan Survey Calculations

Number of Cases:	114
complete Data:	69
Bad Data:	45
Avrg AMT Allowed:	\$13,462.83
Avrg Loan Rate:	11.39 %
Avrg Amt Loan:	\$17,650.91

Total Small LL:	39
Small No Loan & Did Not Try:	26
Small W Loan:	12
Avrg Sml Ln:	\$17,650.91
Avrg Sml Ln Rate:	11.39 %
Small Denied L:	1

Total Large LL:	30
Large W/O Loan:	30
Large Denied L:	0

Case #	Street	#	Unts	AMT	ALLWD	Sml	In	Tried	AMT	Ln	Rate	Term	points
288069	Inman	39-41		27150		Lrg	No	No					
687400	Banks	28-30	4	19814		Lrg	No	No					
688087	Charles	228	8	4900		Sml	No	No					
688096	Notre Dam	6-8	4	9880		Sml	Yes	Yes	10000	9.95	0	500	
688107	Norfolk	86	4	3965		Sml	Bad	Bad					
688111	Shepard	14	10	12800		Sml	Yes	Yes	15000	14	120	Bad	
688112	Gore	16	3	4500		Sml	No	No					
688114	Wendall	11	5	2800		Sml	No	No					
688116	Essex	21	7	1700		Sml	No	No					
688118	Fairfield	25	6	8100		Sml	No	No					
688119	Hurley	62-64	6	26616		Sml	No	No					
688120	Norfolk	345	6	13000		Sml	No	No					
688124	Flagg	11	4	4300		Lrg	Bad	Bad					
688124	Walden	304	1	6400		Sml	Bad	Bad					
688125	Highland	78	6	29800		Sml	No	No					
688125	Fayerweat	95	3	6100		Sml	Bad	Bad					
688127	Bristol	32	3	9650		Sml	No	No					
688128	Mellen	18	5	1975		Lrg	No	No					
688129	Howland	10	2	9200		Lrg	Bad	Bad					
688131	Banks	132-134	2	2525		Lrg	No	No					
688133	Mellen	20	2	4099		Lrg	No	No					
688135	Forest	16-18A	57	204323		Lrg	Bad	Bad					
688136	Forest	17-19A	66	171077		Lrg	Bad	Bad					
688141	Brookline	322	6	2400		Lrg	No	No					
688144	Hampshire	134-136	4	7200		Sml	No	No					
688147	Sacrament	24	2	2880		Lrg	No	No					
688148	Wendell	84	6	4353		Lrg	No	No					
688149	Banks	33-35	2	7172		Lrg	No	No					
688150	PorterSt	24-28	4	9680		Sml	Bad	Bad					
688155	Harvard	213	2	10754		Sml	Yes	Yes	50000	12.75	180	900	
688157	Plymouth	48-50	6	4580		Lrg	Bad	Bad					
688158	Antrim	16-18	4	17106		Sml	Yes	Yes	30000	10.75	240	0	
688172	Putnam	417	1	2781		Sml	No	No					
688179	Frost	64	5	2387		Sml	Bad	Bad					
688180	Walden	110-112	2	15433		Sml	No	No					
688181	Putnam	49-51	3	5681		Sml	No	No					
688182	Cambridge	1590	6	14810		Sml	No	No					
688183	Garden	24	1	946		Sml	No	No					
688188	Garden	26-28	8	21878		Lrg	No	No					
688190	Hurley	317-321				Bad	Bad	Bad					
688191	Sacrament	31A	3	72304		Sml	Bad	Bad					
688192	Broadway	257-257	4	5580		Sml	No	No					
688193	Concord	3	1	1700		Bad	Bad	Bad					
688194	Waterhous	1	1	1006		Bad	Bad	Bad					
688195	Winter	83	1			Bad	Bad	Bad					
688197	Prince	70-72	2	1600		Sml	No	No					
688200	Brookline					Bad	Bad	Bad					
688201	Langdon	1-3	33			Bad	Bad	Bad					
688204	clinton	2	1	1280		Sml	Bad	Bad					
688205	clinton	2	1	1280		Sml	Bad	Bad					
688206	clinton	2	1	1696		Sml	Bad	Bad					
688207	clinton	2	1	1317		Sml	Bad	Bad					
688208	clinton	2	1	1280		Sml	Bad	Bad					
688209	clinton	2	1	874		Sml	Bad	Bad					
688210	Hurley	307-313	6	4689		Bad	Bad	Bad					
688211	Hamilton	144	1	4381		Sml	No	No					

Case #	Street	#	Unts	AMT	ALLWD	Sml	ln	Tried	AMT	Ln	Rate	Term	points
688212	Elm	200	6	23463		Sml	No	No					
688213	Harvard	217	6	10674		Sml	Yes	Yes	50000	12.75	180	900	
688215	Broadway	448	6	80		Sml	Yes	Yes	11400	10	Bad	0	
688216	Broadway	452	6	80		Sml	Yes	Yes	Bad	10	Bad	0	
688217	Franklin	348	1	2928		Sml	Yes	Yes	2500	10	12	0	
688218	Ware	17	1	5671		Lrg	No	No					
688219	Garfield	54	6	9370		Sml	No	No					
688220	Mt. Aubur	22h-24	4			Bad	Bad	Bad					
688221	Plympton	8	2	34885		Lrg	No	No					
688223	Parker	32	1			Bad	Bad	Bad					
688228	Prospect	374-376	3			Bad	Bad	Bad					
688231	Carver	2	3	32371		Sml	No	No					
688232	Foster	58-60	2	7648		Sml	Yes	Yes	6000	11	0	350	
688236	Lawrence	3-7	5	13200		Sml	No	Yes					
688239	Franklin	185	7	11500		Sml	No	No					
688244	May	41-43	6	5400		Sml	Yes	Yes	6000	9	Bad	0	
688245	Glenwood	28-30	6			Bad	Bad	Bad					
688246	Greenough	2-4	10	2850		Lrg	No	No					
688247	Oxford	123	13	2400		Lrg	No	No					
688249	Cambridge	1431	5			Bad	Bad	Bad					
688250	Hammond	84-90	3			Bad	Bad	Bad					
688251	Prescott	20	1	10407		Lrg	No	No					
688253	Norfolk	90	8			Sml	Bad	Bad					
688288	Prospect	374-37	3			Bad	Bad	Bad					
688320	Green	694-702	20	5950		Sml	No	No					
688321	Hurley	317-321	6	5648		Lrg	No	No					
688334	Elm	297	1	7036		Lrg	No	No					
688335	Mass	1200	94	35580		Lrg	Bad	Bad					
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688359	Magazine	48	6	3721		Sml	Yes	Yes	3260	15.07	36	0	
688360	Winter	89	1			Bad	Bad	Bad					
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688364	Windsor	357-359	6			Bad	Bad	Bad					
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688403	Kelly	23A	3	3100		Sml	No	No					
688409	Cambridge	1423				Bad	Bad	Bad					
	Davenport	8	4	22000		Sml	Bad	Bad					
	Western	381	1	d		Bad	Bad	Bad					
	Binny	472				Bad	Bad	Bad					

(term of 3 years or less), mid-term debt instruments (over 3 years but not more than 9 years), and long-term debt instruments (term of over 9 years). The columns reflect minimum rates to use if interest is compounded monthly, quarterly, semiannually or annually. *Note:* The interest rates in the monthly, quarterly and annual compounding columns are equivalent rates to semiannual compounding which is statutorily required.

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120% AFR	10.73%	10.46%	10.33%	10.24%
		Long-Term		
AFR	9.16%	9.96%	8.86%	8.80%
110% AFR	10.10%	9.86%	9.74%	9.66%
120% AFR	11.04%	10.75%	10.61%	10.52%
October 1988 <sup>28a</sup>				
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120% AFR	10.31%	10.06%	9.94%	9.86%
		Mid-Term		
AFR	9.19%	8.99%	8.89%	8.83%
110% AFR	10.13%	9.89%	9.77%	9.69%
120% AFR	11.08%	10.79%	10.65%	10.56%
		Long-Term		
AFR	9.45%	9.24%	9.14%	9.07%
110% AFR	10.42%	10.16%	10.03%	9.95%
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RECEIVED BY  
OFFICE OF CITY CLERK

1989 JAN -5 PM 4: 34

CAMBRIDGE MA.

Cambridge Tenants Union  
1151 Massachusetts Avenue  
Cambridge, Mass. 02138  
January 5, 1989

Cambridge City Council  
City Hall  
795 Massachusetts Avenue  
Cambridge, Mass. 02139

To the Honorable; the City Council:

At the December 19th meeting of the City Council, Councillor William Walsh introduced an order suggesting that the Cambridge Rent Control Board had set the interest rate allowed landlords for amortizing the costs of capital improvements too low, and that the Rent Board should set new, higher rates as a minimum. Councillor David Sullivan exercised his charter right and postponed any action on the order until the next council meeting.

Councillor Walsh's order is both flawed and inaccurate. His order refers to a previous order introduced by Mayor Vellucci. In fact, the previous council order concerning interest rates for capital improvements was introduced by Councillor Walsh, then amended by Councillor Duehay, and approved as amended on June 29, 1987. (Councillor Walsh voted against the amended order.) The order as amended actually called for the following:

"That the Rent Control Board conduct a study of the landlord's cost of capital incurred in financing capital improvements and then set an allowable amortization rate on capital improvements equal to the cost of capital determined by the Rent Control Board in that study to be done within one month."

A copy of the June 29, 1987 order is attached.

The Rent Board responded to the order by conducting studies of the cost of capital for landlords. A preliminary study prepared by the staff of the Rent Board was presented to the Board in December 1987. It found that in a majority of cases landlords did not borrow; otherwise it provided evidence of interest rates on loans taken out by landlords in only a handful of instances. The Board did not rely upon this study when it voted to raise the rates which large landlords obtained to 13 percent and small landlords to 15 percent.

A more substantial study was prepared by the staff of the Rent Board and presented to the Board in December 1988. It drew the following conclusions:

"Most significantly, it appears that only a small percentage of landlords actually borrow money to finance capital improvements. Of those who did report loans, all were small landlords. And of this sub-group, no one paid more than 15.07% interest, with the average rate standing at 11.39%." (p. 2 of report)

There was no evidence in the study indicating that the current interest rates set by the Board were too low or prevented landlords from recovering their full costs of financing capital improvements; on the contrary, the rates are overly generous. A copy of the Rent Board staff study of November 30, 1988, is attached.

If the Rent Board had based the interest rates it allowed on the results of the staff study, in accordance with the Council order of June 29, 1987, the Board would have set the rate at 4 percent for large landlords (that is, at the annual rate of inflation) and 11-11½ percent for small landlords. Instead, the Board effectively ignored the results of the staff survey and chose the much higher rates of 12 percent for large landlords and 15 percent for small landlords.

What the Rent Board is doing thereby is allowing many landlords to reap substantial profits while making capital improvements. This has caused some landlords to make unnecessary or overly expensive capital improvements, driving up rents excessively and reducing the number of affordable housing units in the city.

We respectfully request that the City Council reaffirm its order of June 29, 1987, and encourage the Rent Board to broaden the recent staff study by determining clear responses where data in the survey is now deemed "bad" and by using its subpoena powers to untangle the actual costs of capital in complex business operations like Resource Capitol Group, where funds for acquisition and rehabilitation are often commingled and refinancing follows shortly thereafter. We would then ask the Rent Board to set new interest rates based on this expanded study. Given what the staff survey has determined so far, we would expect that the interest rates allowed for capital improvements would be reduced considerably.

Respectfully submitted,



Michael H. Turk,  
Co-chair



# City of Cambridge

AMENDED

(Calendar Item No. 6)

--1--

## IN CITY COUNCIL

~~May 18, 1987~~

June 29, 1987

COUNCILLOR WALSH

- WHEREAS: The Rent Control Board on March 18, 1987 amended its Regulation 72-10 effective March 19, 1987, to lower the allowed interest rates on capital improvements from 15% to 10% for large landlords and from 15% to 14% for small landlords; and
- WHEREAS: These new allowed interest rates clearly appear to be less than the costs of capital that landlords incur in financing capital improvements; now therefore be it
- ORDERED: That the Rent Control Board conduct a study of the landlord's cost of capital incurred in financing capital improvements and then set an allowable amortization rate on capital improvements equal to the cost of capital determined by the Rent Control Board in that study to be done within one month.

In City Council June 29, 1987.  
Adopted by a ye and nay vote:-  
Yeas 5; Nays 4; Absent 0.  
Attest:- Joseph E. Connarton, City Clerk.

A true copy;

ATTEST:-

*Joseph E. Connarton*  
Joseph E. Connarton, City Clerk.

MEMO

To: The Board  
From: Peter Zimmerman, Hearing Examiner  
Re: Interest Rates on Capital Improvements  
Date: November 30, 1988

Attachments:

- A -- Interest Survey included in Reg. 76 petitions since June '88.
- B -- Interest Rate Survey Data from 1987 Reg.-76 Petitions.
- c -- November 1988 Applicable Federal Interest Rates Table.

Pursuant to Reg. 72-10 amortization rates for capital improvement completed in 1989 will be determined on the following basis:

Rate "A", for small landlords will be set at seven percentage points above the November 1988 long-term AFI, rounded to the nearest whole number. "If this method results in a rate above 15% or below 12%, the change will be effective only if approved by the Rent Control Board."

Rate "B", for large landlords will be determined by subtracting four percentage points from rate "A".

This results in the following possible interest rates for next year:

If approved above 15%

A = AFI + 7%  
A = 9.16% + 7%  
A = 16%  
  
B = A - 4%  
B = 12%

If capped at 15%

A = 15%  
  
B = 12%

*effective  
11/1/89  
72-10*

The Interest Rate Survey

At the request of the Board, the Rent Control Staff has undertaken a survey of landlords filing RA petitions to determine trends in capital improvement financing. It is the purpose of this ongoing project to determine who is borrowing to finance capital improvements, and what interest rate they are paying.

Since the beginning of the collection period in June of this year, a significant percentage of the petitions have yielded incomplete data. This can be attributed to the lag time between the distribution of the survey and the point at which landlords

exhausted their supply of old petitions. Another contributing factor to this problem was the lack of a clearly defined procedure for ensuring that the survey section of the petitions were completely filled out. At this point in time Mr. Packer, the Senior Hearing Examiner, is sending incomplete petitions back to Hearing Officers to collect all required information.

Despite these collection problems, there is no indication that any class of landlord has been misrepresented in the complete data set, and certain tentative conclusions can be drawn. Most significantly, it appears that only a small percentage of landlords actually borrow money to finance capital improvements. Of those who did report loans, all were small landlords. And of this sub-group, no one paid more than 15.07% interest, with the average rate standing at 11.39%. There was little data with which to establish trends for the length of repayment periods, they ranged from between 12 and 240 months.

### Recommendations

Since the few who have borrowed money have been able to obtain interest rates in the 11 to 12% range, interest rates for class "A" landlords should be capped at 15%. This figure is clearly above the borrowing cost for almost all landlords, and should not serve as a disincentive to those contemplating major capital improvements.

The Board should engage in research to establish policies that go beyond the neutral standard of neither encouraging nor discouraging capital expenditures. Certain types of work which are consistent with the objective of maintaining and enhancing the city's housing stock should be encouraged. This could be accomplished either through the use of a multi-level interest schedule (higher interest for vital work), or by creating a class of capital improvements that would not be rescinded until they were actually replaced. These non-rescinding caps could go into place with a lower interest rate than is presently allowed, while still offering encouragement to landlords.

VI. Special Case: Energy Conservation Improvements:

According to Regulation 76-05(a), the cost of capital improvements considered energy-saving may be amortized at an interest rate and over a useful life equal to the terms of a loan granted to finance the expense of the work. Any loan must be given by a recognized lending institution and a copy of the agreement must be attached to this petition. A loan to cover the installation of storm windows will be amortized over not less than five years.

If the owner installs individual heating systems to remove heat as a service provided to the tenants, the owner must insulate or show proof of insulation in the building roof to the State Standard of R-20. If such insulation value is not provided, the cost of converting the heating system will not be amortized according to the terms of the loan, but at the rate outlines in Regulation 72-10. The owner should be aware that if heat is eliminated as a service included in the rent, the examiner shall calculate a reduction in rent which is equal to the amount currently in the legal maximum rent as the cost of heat.

VII. Filing Fee:

The filing fee will be included as an expense in this adjustment. The yearly amount will be determined by dividing the filing fee by the shortest useful life of an allowed improvement.

VIII. Interest Rate Survey:

This section must be completed before the petition will be docketed. The information supplied will not in any way effect the interest rate allocated for the improvements claimed herein.

1. Did you borrow money to finance any of the capital improvements included in this petition?

Yes (go to #2)       No (go to #3)

2. If yes, please state:

amount(s) borrowed: \_\_\_\_\_

rate(s): \_\_\_\_\_

term(s): \_\_\_\_\_

cost of fees or points: \_\_\_\_\_

name of lending institution(s) \_\_\_\_\_  
(or credit company)

improvement(s) for which borrowed funds were used: \_\_\_\_\_

3. If no, was it because you tried but could not get financing?

Yes  No

Name(s) of institution which rejected application: \_\_\_\_\_

IX. Additional Information:

Is there any other information that the Rent Control Board should know in consideration of this petition?

Yes  No

If yes, explain:

I am  I am not claiming the higher interest rate available to owners of less than 35 units.

NOTE: If the higher interest rate is being claimed, the attached affidavit must be completed.

The foregoing statements in this petition are true to the best of my knowledge and belief.

\_\_\_\_\_  
DATE

\_\_\_\_\_  
PETITIONER'S SIGNATURE

## Loan Survey Calculations

Number of Cases:	114
complete Data:	69
Bad Data:	45
Avrg AMT Allowed:	\$13,462.83
Avrg Loan Rate:	11.39 %
Avrg Amt Loan:	\$17,650.91

Total Small LL:	39
Small No Loan & Did Not Try:	26
Small W Loan:	12
Avrg Sml Ln:	\$17,650.91
Avrg Sml Ln Rate:	11.39 %
Small Denied L:	1

Total Large LL:	30
Large W/O Loan:	30
Large Denied L:	0

Case #	Street	#	Unts	AMT	ALLWD	Sml	In	Tried	AMT	Ln	Rate	Term	points
288069	Inman	39-41		27150		Lrg	No	No					
687400	Banks	28-30	4	19814		Lrg	No	No					
688087	Charles	228	8	4900		Sml	No	No					
688096	Notre Dam	6-8	4	9880		Sml	Yes	Yes	10000	9.95	0	500	
688107	Norfolk	86	4	3965		Sml	Bad	Bad					
688111	Shepard	14	10	12800		Sml	Yes	Yes	15000	14	120	Bad	
688112	Gore	16	3	4500		Sml	No	No					
688114	Wendall	11	5	2800		Sml	No	No					
688116	Essex	21	7	1700		Sml	No	No					
688118	Fairfield	25	6	8100		Sml	No	No					
688119	Hurley	62-64	6	26616		Sml	No	No					
688120	Norfolk	345	6	13000		Sml	No	No					
688124	Flagg	11	4	4300		Lrg	Bad	Bad					
688124	Walden	304	1	6400		Sml	Bad	Bad					
688125	Highland	78	6	29800		Sml	No	No					
688125	Fayerweat	95	3	6100		Sml	Bad	Bad					
688127	Bristol	32	3	9650		Sml	No	No					
688128	Mellen	18	5	1975		Lrg	No	No					
688129	Howland	10	2	9200		Lrg	Bad	Bad					
688131	Banks	132-134	2	2525		Lrg	No	No					
688133	Mellen	20	2	4099		Lrg	No	No					
688135	Forest	16-18A	57	204323		Lrg	Bad	Bad					
688136	Forest	17-19A	66	171077		Lrg	Bad	Bad					
688141	Brookline	322	6	2400		Lrg	No	No					
688144	Hampshire	134-136	4	7200		Sml	No	No					
688147	Sacrament	24	2	2880		Lrg	No	No					
688148	Wendell	84	6	4353		Lrg	No	No					
688149	Banks	33-35	2	7172		Lrg	No	No					
688150	PorterSt	24-28	4	9680		Sml	Bad	Bad					
688155	Harvard	213	2	10754		Sml	Yes	Yes	50000	12.75	180	900	
688157	Plymouth	48-50	6	4580		Lrg	Bad	Bad					
688158	Antrim	16-18	4	17106		Sml	Yes	Yes	30000	10.75	240	0	
688172	Putnam	417	1	2781		Sml	No	No					
688179	Frost	64	5	2387		Sml	Bad	Bad					
688180	Walden	110-112	2	15433		Sml	No	No					
688181	Putnam	49-51	3	5681		Sml	No	No					
688182	Cambridge	1590	6	14810		Sml	No	No					
688183	Garden	24	1	946		Sml	No	No					
688188	Garden	26-28	8	21878		Lrg	No	No					
688190	Hurley	317-321				Bad	Bad	Bad					
688191	Sacrament	31A	3	72304		Sml	Bad	Bad					
688192	Broadway	257-257	4	5580		Sml	No	No					
688193	Concord	3	1	1700		Bad	Bad	Bad					
688194	Waterhous	1	1	1006		Bad	Bad	Bad					
688195	Winter	83	1			Bad	Bad	Bad					
688197	Prince	70-72	2	1600		Sml	No	No					
688200	Brookline					Bad	Bad	Bad					
688201	Langdon	1-3	33			Bad	Bad	Bad					
688204	clinton	2	1	1280		Sml	Bad	Bad					
688205	clinton	2	1	1280		Sml	Bad	Bad					
688206	clinton	2	1	1696		Sml	Bad	Bad					
688207	clinton	2	1	1317		Sml	Bad	Bad					
688208	clinton	2	1	1280		Sml	Bad	Bad					
688209	clinton	2	1	874		Sml	Bad	Bad					
688210	Hurley	307-313	6	4689		Bad	Bad	Bad					
688211	Hamilton	144	1	4381		Sml	No	No					

Case #	Street	#	Unts	AMT	ALLWD	Sml	Ln	Tried	AMT	Ln	Rate	Term	points
688212	Elm	200	6	23463		Sml	No	No					
688213	Harvard	217	6	10674		Sml	Yes	Yes	50000		12.75	180	900
688215	Broadway	448	6	80		Sml	Yes	Yes	11400		10	Bad	0
688216	Broadway	452	6	80		Sml	Yes	Yes	Bad		10	Bad	0
688217	Franklin	348	1	2928		Sml	Yes	Yes	2500		10	12	0
688218	Ware	17	1	5671		Lrg	No	No					
688219	Garfield	54	6	9370		Sml	No	No					
688220	Mt. Aubur	22h-24	4			Bad	Bad	Bad					
688221	Plympton	8	2	34885		Lrg	No	No					
688223	Parker	32	1			Bad	Bad	Bad					
688228	Prospect	374-376	3			Bad	Bad	Bad					
688231	Carver	2	3	32371		Sml	No	No					
688232	Foster	58-60	2	7648		Sml	Yes	Yes	6000		11	0	350
688236	Lawrence	3-7	5	13200		Sml	No	Yes					
688239	Franklin	185	7	11500		Sml	No	No					
688244	May	41-43	6	5400		Sml	Yes	Yes	6000		9	Bad	0
688245	Glenwood	28-30	6			Bad	Bad	Bad					
688246	Greenough	2-4	10	2850		Lrg	No	No					
688247	Oxford	123	13	2400		Lrg	No	No					
688249	Cambridge	1431	5			Bad	Bad	Bad					
688250	Hammond	84-90	3			Bad	Bad	Bad					
688251	Prescott	20	1	10407		Lrg	No	No					
688253	Norfolk	90	8			Sml	Bad	Bad					
688288	Prospect	374-37	3			Bad	Bad	Bad					
688320	Green	694-702	20	5950		Sml	No	No					
688321	Hurley	317-321	6	5648		Lrg	No	No					
688334	Elm	297	1	7036		Lrg	No	No					
688335	Mass	1200	94	35580		Lrg	Bad	Bad					
688337	Broadway	373-375	21	7065		Sml	No	No					
688338	GardenCt	4	1			Bad	Bad	Bad					
688339	Hammond	74	2	10643		Lrg	No	No					
688340	Grant	12	1			Bad	Bad	Bad					
688341	Athens	3	1	7667		Lrg	No	No					
688342	Garfield	44	5			Bad	Bad	Bad					
688343	AthensTer	1	1			Bad	Bad	Bad					
688344	Sparks	67	1			Bad	Bad	Bad					
688345	Prescott	24	1	2520		Lrg	No	No					
688346	Plympton	101-102	3	3031		Lrg	No	No					
688348	Concord	286	6	13245		Sml	Yes	Yes	10000		Bad	Bad	Bad
688351	Oxford	106-110	12	3563		Lrg	No	No					
688359	Magazine	48	6	3721		Sml	Yes	Yes	3260		15.07	36	0
688360	Winter	89	1			Bad	Bad	Bad					
688361	Norfolk	160	2	10982		Lrg	No	No					
688364	Windsor	357-359	6			Bad	Bad	Bad					
688367	Broadway	381	5	4648		Sml	No	No					
688372	Ware	9-13A	6	17525		Lrg	No	No					
688376	Shea	31	1	7250		Sml	Bad	Bad					
688403	Kelly	23A	3	3100		Sml	No	No					
688409	Cambridge	1423				Bad	Bad	Bad					
	Davenport	8	4	22000		Sml	Bad	Bad					
	Western	381	1	d		Bad	Bad	Bad					
	Binny	472				Bad	Bad	Bad					

(term of 3 years or less), mid-term debt instruments (over 3 years but not more than 9 years), and long-term debt instruments (term of over 9 years). The columns reflect minimum rates to use if interest is compounded monthly, quarterly, semiannually or annually. *Note:* The interest rates in the monthly, quarterly and annual compounding columns are equivalent rates to semiannual compounding which is statutorily required.

»**HOW TO USE THE TABLES**→ First find the table for the appropriate month and the subdivision of the table with the same term as the debt instrument or other transaction. Now find the row with the Applicable Federal Rate percentage (100%, 110%, or 120% of AFR) that must be used for the transaction. See editorials referenced above. The interest rate in the column with the compounding period you are using is the AFR that applies unless a sale or exchange is involved. Sales or exchanges get a special break; the AFR to use is the lowest rate for the 3-month period ending with the month in which a binding written contract is entered into. So check the appropriate row and column of the Tables for the 2 months preceding the sale or exchange to find the lowest interest rate percentage to use.

*Note:* Monthly interest tables were provided starting with Jan. 1985. The semiannual tables were ended after 6-30-85.

»**LOWER RATES MAY BE AVAILABLE**→ Regs. may allow lower interest rates to be used if it is established to the satisfaction of IRS that the rates are based on the same principles as AFRs and they are appropriate for the term of the debt instruments. In addition, some transactions automatically qualify for lower interest rates than appear in the tables. So be sure to check the appropriate editorials referenced above.

#### MONTHLY INTEREST RATES TABLES

	Annual	Semiannual	Quarterly	Monthly
November 1988 <sup>28</sup>				
Applicable Federal Rate AFR	8.41%	Short-Term		8.10%
110% AFR	9.27%	8.24%	8.16%	8.89%
120% AFR	10.13%	9.06%	8.96%	9.69%
		9.89%	9.77%	
		Mid-Term		
AFR	8.91%	8.72%	8.63%	8.57%
110% AFR	9.82%	9.59%	9.48%	9.40%
120% AFR	10.73%	10.46%	10.33%	10.24%
		Long-Term		
AFR	9.16%	9.96%	8.86%	8.80%
110% AFR	10.10%	9.86%	9.74%	9.66%
120% AFR	11.04%	10.75%	10.61%	10.52%
October 1988 <sup>28a</sup>				
		Short-Term		
AFR	8.56%	8.38%	8.29%	8.24%
110% AFR	9.43%	9.22%	9.12%	9.05%
120% AFR	10.31%	10.06%	9.94%	9.86%
		Mid-Term		
AFR	9.19%	8.99%	8.89%	8.83%
110% AFR	10.13%	9.89%	9.77%	9.69%
120% AFR	11.08%	10.79%	10.65%	10.56%
		Long-Term		
AFR	9.45%	9.24%	9.14%	9.07%
110% AFR	10.42%	10.16%	10.03%	9.95%
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RECEIVED BY  
OFFICE OF CITY CLERK

1989 JAN -5 PM 4: 34

CAMBRIDGE MA.

Cambridge Tenants Union  
1151 Massachusetts Avenue  
Cambridge, Mass. 02138  
January 5, 1989

Cambridge City Council  
City Hall  
795 Massachusetts Avenue  
Cambridge, Mass. 02139

To the Honorable; the City Council:

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"That the Rent Control Board conduct a study of the landlord's cost of capital incurred in financing capital improvements and then set an allowable amortization rate on capital improvements equal to the cost of capital determined by the Rent Control Board in that study to be done within one month."

A copy of the June 29, 1987 order is attached.

The Rent Board responded to the order by conducting studies of the cost of capital for landlords. A preliminary study prepared by the staff of the Rent Board was presented to the Board in December 1987. It found that in a majority of cases landlords did not borrow; otherwise it provided evidence of interest rates on loans taken out by landlords in only a handful of instances. The Board did not rely upon this study when it voted to raise the rates which large landlords obtained to 13 percent and small landlords to 15 percent.

A more substantial study was prepared by the staff of the Rent Board and presented to the Board in December 1988. It drew the following conclusions:

"Most significantly, it appears that only a small percentage of landlords actually borrow money to finance capital improvements. Of those who did report loans, all were small landlords. And of this sub-group, no one paid more than 15.07% interest, with the average rate standing at 11.39%." (p. 2 of report)


There was no evidence in the study indicating that the current interest rates set by the Board were too low or prevented landlords from recovering their full costs of financing capital improvements; on the contrary, the rates are overly generous. A copy of the Rent Board staff study of November 30, 1988, is attached.

If the Rent Board had based the interest rates it allowed on the results of the staff study, in accordance with the Council order of June 29, 1987, the Board would have set the rate at 4 percent for large landlords (that is, at the annual rate of inflation) and 11-11½ percent for small landlords. Instead, the Board effectively ignored the results of the staff survey and chose the much higher rates of 12 percent for large landlords and 15 percent for small landlords.

What the Rent Board is doing thereby is allowing many landlords to reap substantial profits while making capital improvements. This has caused some landlords to make unnecessary or overly expensive capital improvements, driving up rents excessively and reducing the number of affordable housing units in the city.

We respectfully request that the City Council reaffirm its order of June 29, 1987, and encourage the Rent Board to broaden the recent staff study by determining clear responses where data in the survey is now deemed "bad" and by using its subpoena powers to untangle the actual costs of capital in complex business operations like Resource Capitol Group, where funds for acquisition and rehabilitation are often commingled and refinancing follows shortly thereafter. We would then ask the Rent Board to set new interest rates based on this expanded study. Given what the staff survey has determined so far, we would expect that the interest rates allowed for capital improvements would be reduced considerably.

Respectfully submitted,



Michael H. Turk,  
Co-chair



# City of Cambridge

AMENDED  
(Calendar Item No. 6)

--1--

## IN CITY COUNCIL

~~May 18, 1987~~  
June 29, 1987

COUNCILLOR WALSH

- WHEREAS: The Rent Control Board on March 18, 1987 amended its Regulation 72-10 effective March 19, 1987, to lower the allowed interest rates on capital improvements from 15% to 10% for large landlords and from 15% to 14% for small landlords; and
- WHEREAS: These new allowed interest rates clearly appear to be less than the costs of capital that landlords incur in financing capital improvements; now therefore be it
- ORDERED: That the Rent Control Board conduct a study of the landlord's cost of capital incurred in financing capital improvements and then set an allowable amortization rate on capital improvements equal to the cost of capital determined by the Rent Control Board in that study to be done within one month.

In City Council June 29, 1987.  
Adopted by a ye and nay vote:-  
Yeas 5; Nays 4; Absent 0.  
Attest:- Joseph E. Connarton, City Clerk.

A true copy;

ATTEST:-

*Joseph E. Connarton*  
Joseph E. Connarton, City Clerk.

MEMO

To: The Board  
From: Peter Zimmerman, Hearing Examiner  
Re: Interest Rates on Capital Improvements  
Date: November 30, 1988

Attachments:

- A -- Interest Survey included in Reg. 76 petitions since June '88.
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Pursuant to Reg. 72-10 amortization rates for capital improvement completed in 1989 will be determined on the following basis:

Rate "A", for small landlords will be set at seven percentage points above the November 1988 long-term AFI, rounded to the nearest whole number. "If this method results in a rate above 15% or below 12%, the change will be effective only if approved by the Rent Control Board."

Rate "B", for large landlords will be determined by subtracting four percentage points from rate "A".

This results in the following possible interest rates for next year:

If approved above 15%

A = AFI + 7%  
 A = 9.16% + 7%  
 A = 16%  
  
 B = A - 4%  
 B = 12%

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*attached  
1/1/89  
72-10*

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The filing fee will be included as an expense in this adjustment. The yearly amount will be determined by dividing the filing fee by the shortest useful life of an allowed improvement.

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This section must be completed before the petition will be docketed. The information supplied will not in any way effect the interest rate allocated for the improvements claimed herein.

1. Did you borrow money to finance any of the capital improvements included in this petition?

Yes (go to #2)       No (go to #3)

2. If yes, please state:

amount(s) borrowed: \_\_\_\_\_

rate(s): \_\_\_\_\_

term(s): \_\_\_\_\_

cost of fees or points: \_\_\_\_\_

name of lending institution(s) \_\_\_\_\_  
(or credit company)

improvement(s) for which borrowed funds were used: \_\_\_\_\_

3. If no, was it because you tried but could not get financing?

Yes  No

Name(s) of institution which rejected application: \_\_\_\_\_

IX. Additional Information:

Is there any other information that the Rent Control Board should know in consideration of this petition?

Yes  No

Is yes, explain:

I am  I am not claiming the higher interest rate available to owners of less than 35 units.

NOTE: If the higher interest rate is being claimed, the attached affidavit must be completed.

The foregoing statements in this petition are true to the best of my knowledge and belief.

\_\_\_\_\_  
DATE

\_\_\_\_\_  
PETITIONER'S SIGNATURE

## Loan Survey Calculations

Number of Cases:	114
complete Data:	69
Bad Data:	45
Avrg AMT Allowed:	\$13,462.83
Avrg Loan Rate:	11.39 %
Avrg Amt Loan:	\$17,650.91

Total Small LL:	39
Small No Loan & Did Not Try:	26
Small W Loan:	12
Avrg Sml Ln:	\$17,650.91
Avrg Sml Ln Rate:	11.39 %
Small Denied L:	1

Total Large LL:	30
Large W/O Loan:	30
Large Denied L:	0

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687400	Banks	28-30	4	19814		Lrg	No	No					
688087	Charles	228	8	4900		Sml	No	No					
688096	Notre Dam	6-8	4	9880		Sml	Yes	Yes	10000	9.95	0	500	
688107	Norfolk	86	4	3965		Sml	Bad	Bad					
688111	Shepard	14	10	12800		Sml	Yes	Yes	15000	14	120	Bad	
688112	Gore	16	3	4500		Sml	No	No					
688114	Wendall	11	5	2800		Sml	No	No					
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688124	Flagg	11	4	4300		Lrg	Bad	Bad					
688124	Walden	304	1	6400		Sml	Bad	Bad					
688125	Highland	78	6	29800		Sml	No	No					
688125	Fayerweat	95	3	6100		Sml	Bad	Bad					
688127	Bristol	32	3	9650		Sml	No	No					
688128	Mellen	18	5	1975		Lrg	No	No					
688129	Howland	10	2	9200		Lrg	Bad	Bad					
688131	Banks	132-134	2	2525		Lrg	No	No					
688133	Mellen	20	2	4099		Lrg	No	No					
688135	Forest	16-18A	57	204323		Lrg	Bad	Bad					
688136	Forest	17-19A	66	171077		Lrg	Bad	Bad					
688141	Brookline	322	6	2400		Lrg	No	No					
688144	Hampshire	134-136	4	7200		Sml	No	No					
688147	Sacrament	24	2	2880		Lrg	No	No					
688148	Wendell	84	6	4353		Lrg	No	No					
688149	Banks	33-35	2	7172		Lrg	No	No					
688150	PorterSt	24-28	4	9680		Sml	Bad	Bad					
688155	Harvard	213	2	10754		Sml	Yes	Yes	50000	12.75	180	900	
688157	Plymouth	48-50	6	4580		Lrg	Bad	Bad					
688158	Antrim	16-18	4	17106		Sml	Yes	Yes	30000	10.75	240	0	
688172	Putnam	417	1	2781		Sml	No	No					
688179	Frost	64	5	2387		Sml	Bad	Bad					
688180	Walden	110-112	2	15433		Sml	No	No					
688181	Putnam	49-51	3	5681		Sml	No	No					
688182	Cambridge	1590	6	14810		Sml	No	No					
688183	Garden	24	1	946		Sml	No	No					
688188	Garden	26-28	8	21878		Lrg	No	No					
688190	Hurley	317-321				Bad	Bad	Bad					
688191	Sacrament	31A	3	72304		Sml	Bad	Bad					
688192	Broadway	257-257	4	5580		Sml	No	No					
688193	Concord	3	1	1700		Bad	Bad	Bad					
688194	Waterhous	1	1	1006		Bad	Bad	Bad					
688195	Winter	83	1			Bad	Bad	Bad					
688197	Prince	70-72	2	1600		Sml	No	No					
688200	Brookline					Bad	Bad	Bad					
688201	Langdon	1-3	33			Bad	Bad	Bad					
688204	clinton	2	1	1280		Sml	Bad	Bad					
688205	clinton	2	1	1280		Sml	Bad	Bad					
688206	clinton	2	1	1696		Sml	Bad	Bad					
688207	clinton	2	1	1317		Sml	Bad	Bad					
688208	clinton	2	1	1280		Sml	Bad	Bad					
688209	clinton	2	1	874		Sml	Bad	Bad					
688210	Hurley	307-313	6	4689		Bad	Bad	Bad					
688211	Hamilton	144	1	4381		Sml	No	No					

Case #	Street	#	Unts	AMT	ALLWD	Sml	ln	Tried	AMT	Ln	Rate	Term	points
688212	Elm	200	6	23463		Sml	No	No					
688213	Harvard	217	6	10674		Sml	Yes	Yes	50000	12.75	180	900	
688215	Broadway	448	6	80		Sml	Yes	Yes	11400	10	Bad	0	
688216	Broadway	452	6	80		Sml	Yes	Yes	Bad	10	Bad	0	
688217	Franklin	348	1	2928		Sml	Yes	Yes	2500	10	12	0	
688218	Ware	17	1	5671		Lrg	No	No					
688219	Garfield	54	6	9370		Sml	No	No					
688220	Mt. Aubur	22h-24	4			Bad	Bad	Bad					
688221	Plympton	8	2	34885		Lrg	No	No					
688223	Parker	32	1			Bad	Bad	Bad					
688228	Prospect	374-376	3			Bad	Bad	Bad					
688231	Carver	2	3	32371		Sml	No	No					
688232	Foster	58-60	2	7648		Sml	Yes	Yes	6000	11	0	350	
688236	Lawrence	3-7	5	13200		Sml	No	Yes					
688239	Franklin	185	7	11500		Sml	No	No					
688244	May	41-43	6	5400		Sml	Yes	Yes	6000	9	Bad	0	
688245	Glenwood	28-30	6			Bad	Bad	Bad					
688246	Greenough	2-4	10	2850		Lrg	No	No					
688247	Oxford	123	13	2400		Lrg	No	No					
688249	Cambridge	1431	5			Bad	Bad	Bad					
688250	Hammond	84-90	3			Bad	Bad	Bad					
688251	Prescott	20	1	10407		Lrg	No	No					
688253	Norfolk	90	8			Sml	Bad	Bad					
688288	Prospect	374-37	3			Bad	Bad	Bad					
688320	Green	694-702	20	5950		Sml	No	No					
688321	Hurley	317-321	6	5648		Lrg	No	No					
688334	Elm	297	1	7036		Lrg	No	No					
688335	Mass	1200	94	35580		Lrg	Bad	Bad					
688337	Broadway	373-375	21	7065		Sml	No	No					
688338	Garden	Ct 4	1			Bad	Bad	Bad					
688339	Hammond	74	2	10643		Lrg	No	No					
688340	Grant	12	1			Bad	Bad	Bad					
688341	Athens	3	1	7667		Lrg	No	No					
688342	Garfield	44	5			Bad	Bad	Bad					
688343	Athens	Terl	1			Bad	Bad	Bad					
688344	Sparks	67	1			Bad	Bad	Bad					
688345	Prescott	24	1	2520		Lrg	No	No					
688346	Plympton	101-102	3	3031		Lrg	No	No					
688348	Concord	286	6	13245		Sml	Yes	Yes	10000	Bad	Bad	Bad	
688351	Oxford	106-110	12	3563		Lrg	No	No					
688359	Magazine	48	6	3721		Sml	Yes	Yes	3260	15.07	36	0	
688360	Winter	89	1			Bad	Bad	Bad					
688361	Norfolk	160	2	10982		Lrg	No	No					
688364	Windsor	357-359	6			Bad	Bad	Bad					
688367	Broadway	381	5	4648		Sml	No	No					
688372	Ware	9-13A	6	17525		Lrg	No	No					
688376	Shea	31	1	7250		Sml	Bad	Bad					
688403	Kelly	23A	3	3100		Sml	No	No					
688409	Cambridge	1423				Bad	Bad	Bad					
	Davenport	8	4	22000		Sml	Bad	Bad					
	Western	381	1	d		Bad	Bad	Bad					
	Binny	472				Bad	Bad	Bad					

(term of 3 years or less), mid-term debt instruments (over 3 years but not more than 9 years), and long-term debt instruments (term of over 9 years). The columns reflect minimum rates to use if interest is compounded monthly, quarterly, semiannually or annually. *Note:* The interest rates in the monthly, quarterly and annual compounding columns are equivalent rates to semiannual compounding which is statutorily required.

»HOW TO USE THE TABLES→ First find the table for the appropriate month and the subdivision of the table with the same term as the debt instrument or other transaction. Now find the row with the Applicable Federal Rate percentage (100%, 110%, or 120% of AFR) that must be used for the transaction. See editorials referenced above. The interest rate in the column with the compounding period you are using is the AFR that applies unless a sale or exchange is involved. Sales or exchanges get a special break; the AFR to use is the lowest rate for the 3-month period ending with the month in which a binding written contract is entered into. So check the appropriate row and column of the Tables for the 2 months preceding the sale or exchange to find the lowest interest rate percentage to use.

*Note:* Monthly interest tables were provided starting with Jan. 1985. The semiannual tables were ended after 6-30-85.

»LOWER RATES MAY BE AVAILABLE→ Regs. may allow lower interest rates to be used if it is established to the satisfaction of IRS that the rates are based on the same principles as AFRs and they are appropriate for the term of the debt instruments. In addition, some transactions automatically qualify for lower interest rates than appear in the tables. So be sure to check the appropriate editorials referenced above.

## MONTHLY INTEREST RATES TABLES

	Annual	Semiannual	Quarterly	Monthly
November 1988 <sup>28</sup>				
Applicable Federal Rate AFR	8.41%	Short-Term		8.10%
110% AFR	9.27%	8.24%	8.16%	8.89%
120% AFR	10.13%	9.06%	8.96%	9.69%
		9.89%	9.77%	
		Mid-Term		
AFR	8.91%	8.72%	8.63%	8.57%
110% AFR	9.82%	9.59%	9.48%	9.40%
120% AFR	10.73%	10.46%	10.33%	10.24%
		Long-Term		
AFR	9.16%	9.96%	8.86%	8.80%
110% AFR	10.10%	9.86%	9.74%	9.66%
120% AFR	11.04%	10.75%	10.61%	10.52%
October 1988 <sup>28a</sup>				
		Short-Term		
AFR	8.56%	8.38%	8.29%	8.24%
110% AFR	9.43%	9.22%	9.12%	9.05%
120% AFR	10.31%	10.06%	9.94%	9.86%
		Mid-Term		
AFR	9.19%	8.99%	8.89%	8.83%
110% AFR	10.13%	9.89%	9.77%	9.69%
120% AFR	11.08%	10.79%	10.65%	10.56%
		Long-Term		
AFR	9.45%	9.24%	9.14%	9.07%
110% AFR	10.42%	10.16%	10.03%	9.95%
120% AFR	11.40%	11.09%	10.94%	10.84%

RECEIVED BY  
OFFICE OF CITY CLERK

1989 JAN -5 PM 4:34

CAMBRIDGE MA.

Cambridge Tenants Union  
1151 Massachusetts Avenue  
Cambridge, Mass. 02138  
January 5, 1989

Cambridge City Council  
City Hall  
795 Massachusetts Avenue  
Cambridge, Mass. 02139

To the Honorable; the City Council:

At the December 19th meeting of the City Council, Councillor William Walsh introduced an order suggesting that the Cambridge Rent Control Board had set the interest rate allowed landlords for amortizing the costs of capital improvements too low, and that the Rent Board should set new, higher rates as a minimum. Councillor David Sullivan exercised his charter right and postponed any action on the order until the next council meeting.

Councillor Walsh's order is both flawed and inaccurate. His order refers to a previous order introduced by Mayor Vellucci. In fact, the previous council order concerning interest rates for capital improvements was introduced by Councillor Walsh, then amended by Councillor Duehay, and approved as amended on June 29, 1987. (Councillor Walsh voted against the amended order.) The order as amended actually called for the following:

"That the Rent Control Board conduct a study of the landlord's cost of capital incurred in financing capital improvements and then set an allowable amortization rate on capital improvements equal to the cost of capital determined by the Rent Control Board in that study to be done within one month."

A copy of the June 29, 1987 order is attached.

The Rent Board responded to the order by conducting studies of the cost of capital for landlords. A preliminary study prepared by the staff of the Rent Board was presented to the Board in December 1987. It found that in a majority of cases landlords did not borrow; otherwise it provided evidence of interest rates on loans taken out by landlords in only a handful of instances. The Board did not rely upon this study when it voted to raise the rates which large landlords obtained to 13 percent and small landlords to 15 percent.

A more substantial study was prepared by the staff of the Rent Board and presented to the Board in December 1988. It drew the following conclusions:

"Most significantly, it appears that only a small percentage of landlords actually borrow money to finance capital improvements. Of those who did report loans, all were small landlords. And of this sub-group, no one paid more than 15.07% interest, with the average rate standing at 11.39%." (p. 2 of report)


There was no evidence in the study indicating that the current interest rates set by the Board were too low or prevented landlords from recovering their full costs of financing capital improvements; on the contrary, the rates are overly generous. A copy of the Rent Board staff study of November 30, 1988, is attached.

If the Rent Board had based the interest rates it allowed on the results of the staff study, in accordance with the Council order of June 29, 1987, the Board would have set the rate at 4 percent for large landlords (that is, at the annual rate of inflation) and 11-11½ percent for small landlords. Instead, the Board effectively ignored the results of the staff survey and chose the much higher rates of 12 percent for large landlords and 15 percent for small landlords.

What the Rent Board is doing thereby is allowing many landlords to reap substantial profits while making capital improvements. This has caused some landlords to make unnecessary or overly expensive capital improvements, driving up rents excessively and reducing the number of affordable housing units in the city.

We respectfully request that the City Council reaffirm its order of June 29, 1987, and encourage the Rent Board to broaden the recent staff study by determining clear responses where data in the survey is now deemed "bad" and by using its subpoena powers to untangle the actual costs of capital in complex business operations like Resource Capitol Group, where funds for acquisition and rehabilitation are often commingled and refinancing follows shortly thereafter. We would then ask the Rent Board to set new interest rates based on this expanded study. Given what the staff survey has determined so far, we would expect that the interest rates allowed for capital improvements would be reduced considerably.

Respectfully submitted,



Michael H. Turk,  
Co-chair



# City of Cambridge

AMENDED  
(Calendar Item No. 6)

--1--

IN CITY COUNCIL

~~May 18, 1987~~  
June 29, 1987

COUNCILLOR WALSH

- WHEREAS: The Rent Control Board on March 18, 1987 amended its Regulation 72-10 effective March 19, 1987, to lower the allowed interest rates on capital improvements from 15% to 10% for large landlords and from 15% to 14% for small landlords; and
- WHEREAS: These new allowed interest rates clearly appear to be less than the costs of capital that landlords incur in financing capital improvements; now therefore be it
- ORDERED: That the Rent Control Board conduct a study of the landlord's cost of capital incurred in financing capital improvements and then set an allowable amortization rate on capital improvements equal to the cost of capital determined by the Rent Control Board in that study to be done within one month.

In City Council June 29, 1987.  
Adopted by a yeas and nays vote:-  
Yeas 5; Nays 4; Absent 0.  
Attest:- Joseph E. Connarton, City Clerk.

A true copy;

ATTEST:-

*Joseph E. Connarton*  
Joseph E. Connarton, City Clerk.

MEMO

To: The Board  
From: Peter Zimmerman, Hearing Examiner  
Re: Interest Rates on Capital Improvements  
Date: November 30, 1988

Attachments:

- A -- Interest Survey included in Reg. 76 petitions since June '88.
- B -- Interest Rate Survey Data from 1987 Reg.-76 Petitions.
- c -- November 1988 Applicable Federal Interest Rates Table.

Pursuant to Reg. 72-10 amortization rates for capital improvement completed in 1989 will be determined on the following basis:

Rate "A", for small landlords will be set at seven percentage points above the November 1988 long-term AFI, rounded to the nearest whole number. "If this method results in a rate above 15% or below 12%, the change will be effective only if approved by the Rent Control Board."

Rate "B", for large landlords will be determined by subtracting four percentage points from rate "A".

This results in the following possible interest rates for next year:

If approved above 15%

- A = AFI + 7%
- A = 9.16% + 7%
- A = 16%
- B = A - 4%
- B = 12%

If capped at 15%

- A = 15%
- B = 12%

*attached  
1/1/89  
72-10*

The Interest Rate Survey

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### Recommendations

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The Board should engage in research to establish policies that go beyond the neutral standard of neither encouraging nor discouraging capital expenditures. Certain types of work which are consistent with the objective of maintaining and enhancing the city's housing stock should be encouraged. This could be accomplished either through the use of a multi-level interest schedule (higher interest for vital work), or by creating a class of capital improvements that would not be rescinded until they were actually replaced. These non-rescinding caps could go into place with a lower interest rate than is presently allowed, while still offering encouragement to landlords.

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Yes (go to #2)       No (go to #3)

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cost of fees or points: \_\_\_\_\_

name of lending institution(s) \_\_\_\_\_  
(or credit company)

improvement(s) for which borrowed funds were used: \_\_\_\_\_

3. If no, was it because you tried but could not get financing?

Yes  No

Name(s) of institution which rejected application: \_\_\_\_\_

IX. Additional Information:

Is there any other information that the Rent Control Board should know in consideration of this petition?

Yes  No

Is yes, explain:

I am  I am not claiming the higher interest rate available to owners of less than 35 units.

NOTE: If the higher interest rate is being claimed, the attached affidavit must be completed.

The foregoing statements in this petition are true to the best of my knowledge and belief.

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DATE

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688124	Walden	304	1	6400		Sml	Bad	Bad					
688125	Highland	78	6	29800		Sml	No	No					
688125	Fayerweat	95	3	6100		Sml	Bad	Bad					
688127	Bristol	32	3	9650		Sml	No	No					
688128	Mellen	18	5	1975		Lrg	No	No					
688129	Howland	10	2	9200		Lrg	Bad	Bad					
688131	Banks	132-134	2	2525		Lrg	No	No					
688133	Mellen	20	2	4099		Lrg	No	No					
688135	Forest	16-18A	57	204323		Lrg	Bad	Bad					
688136	Forest	17-19A	66	171077		Lrg	Bad	Bad					
688141	Brookline	322	6	2400		Lrg	No	No					
688144	Hampshire	134-136	4	7200		Sml	No	No					
688147	Sacrament	24	2	2880		Lrg	No	No					
688148	Wendell	84	6	4353		Lrg	No	No					
688149	Banks	33-35	2	7172		Lrg	No	No					
688150	PorterSt	24-28	4	9680		Sml	Bad	Bad					
688155	Harvard	213	2	10754		Sml	Yes	Yes	50000	12.75	180	900	
688157	Plymouth	48-50	6	4580		Lrg	Bad	Bad					
688158	Antrim	16-18	4	17106		Sml	Yes	Yes	30000	10.75	240	0	
688172	Putnam	417	1	2781		Sml	No	No					
688179	Frost	64	5	2387		Sml	Bad	Bad					
688180	Walden	110-112	2	15433		Sml	No	No					
688181	Putnam	49-51	3	5681		Sml	No	No					
688182	Cambridge	1590	6	14810		Sml	No	No					
688183	Garden	24	1	946		Sml	No	No					
688188	Garden	26-28	8	21878		Lrg	No	No					
688190	Hurley	317-321				Bad	Bad	Bad					
688191	Sacrament	31A	3	72304		Sml	Bad	Bad					
688192	Broadway	257-257	4	5580		Sml	No	No					
688193	Concord	3	1	1700		Bad	Bad	Bad					
688194	Waterhous	1	1	1006		Bad	Bad	Bad					
688195	Winter	83	1			Bad	Bad	Bad					
688197	Prince	70-72	2	1600		Sml	No	No					
688200	Brookline					Bad	Bad	Bad					
688201	Langdon	1-3	33			Bad	Bad	Bad					
688204	clinton	2	1	1280		Sml	Bad	Bad					
688205	clinton	2	1	1280		Sml	Bad	Bad					
688206	clinton	2	1	1696		Sml	Bad	Bad					
688207	clinton	2	1	1317		Sml	Bad	Bad					
688208	clinton	2	1	1280		Sml	Bad	Bad					
688209	clinton	2	1	874		Sml	Bad	Bad					
688210	Hurley	307-313	6	4689		Bad	Bad	Bad					
688211	Hamilton	144	1	4381		Sml	No	No					

Case #	Street	#	Unts	AMT	ALLWD	Sml	ln	Tried	AMT	Ln	Rate	Term	points
688212	Elm	200	6	23463		Sml	No	No					
688213	Harvard	217	6	10674		Sml	Yes	Yes	50000	12.75	180	900	
688215	Broadway	448	6	80		Sml	Yes	Yes	11400	10	Bad	0	
688216	Broadway	452	6	80		Sml	Yes	Yes	Bad	10	Bad	0	
688217	Franklin	348	1	2928		Sml	Yes	Yes	2500	10	12	0	
688218	Ware	17	1	5671		Lrg	No	No					
688219	Garfield	54	6	9370		Sml	No	No					
688220	Mt. Aubur	22h-24	4			Bad	Bad	Bad					
688221	Plympton	8	2	34885		Lrg	No	No					
688223	Parker	32	1			Bad	Bad	Bad					
688228	Prospect	374-376	3			Bad	Bad	Bad					
688231	Carver	2	3	32371		Sml	No	No					
688232	Foster	58-60	2	7648		Sml	Yes	Yes	6000	11	0	350	
688236	Lawrence	3-7	5	13200		Sml	No	Yes					
688239	Franklin	185	7	11500		Sml	No	No					
688244	May	41-43	6	5400		Sml	Yes	Yes	6000	9	Bad	0	
688245	Glenwood	28-30	6			Bad	Bad	Bad					
688246	Greenough	2-4	10	2850		Lrg	No	No					
688247	Oxford	123	13	2400		Lrg	No	No					
688249	Cambridge	1431	5			Bad	Bad	Bad					
688250	Hammond	84-90	3			Bad	Bad	Bad					
688251	Prescott	20	1	10407		Lrg	No	No					
688253	Norfolk	90	8			Sml	Bad	Bad					
688288	Prospect	374-37	3			Bad	Bad	Bad					
688320	Green	694-702	20	5950		Sml	No	No					
688321	Hurley	317-321	6	5648		Lrg	No	No					
688334	Elm	297	1	7036		Lrg	No	No					
688335	Mass	1200	94	35580		Lrg	Bad	Bad					
688337	Broadway	373-375	21	7065		Sml	No	No					
688338	Garden	Ct 4	1			Bad	Bad	Bad					
688339	Hammond	74	2	10643		Lrg	No	No					
688340	Grant	12	1			Bad	Bad	Bad					
688341	Athens	3	1	7667		Lrg	No	No					
688342	Garfield	44	5			Bad	Bad	Bad					
688343	Athens	Terl	1			Bad	Bad	Bad					
688344	Sparks	67	1			Bad	Bad	Bad					
688345	Prescott	24	1	2520		Lrg	No	No					
688346	Plympton	101-102	3	3031		Lrg	No	No					
688348	Concord	286	6	13245		Sml	Yes	Yes	10000	Bad	Bad	Bad	
688351	Oxford	106-110	12	3563		Lrg	No	No					
688359	Magazine	48	6	3721		Sml	Yes	Yes	3260	15.07	36	0	
688360	Winter	89	1			Bad	Bad	Bad					
688361	Norfolk	160	2	10982		Lrg	No	No					
688364	Windsor	357-359	6			Bad	Bad	Bad					
688367	Broadway	381	5	4648		Sml	No	No					
688372	Ware	9-13A	6	17525		Lrg	No	No					
688376	Shea	31	1	7250		Sml	Bad	Bad					
688403	Kelly	23A	3	3100		Sml	No	No					
688409	Cambridge	1423				Bad	Bad	Bad					
	Davenport	8	4	22000		Sml	Bad	Bad					
	Western	381	1	d		Bad	Bad	Bad					
	Binny	472				Bad	Bad	Bad					

(term of 3 years or less), mid-term debt instruments (over 3 years but not more than 9 years), and long-term debt instruments (term of over 9 years). The columns reflect minimum rates to use if interest is compounded monthly, quarterly, semiannually or annually. *Note:* The interest rates in the monthly, quarterly and annual compounding columns are equivalent rates to semiannual compounding which is statutorily required.

»HOW TO USE THE TABLES» First find the table for the appropriate month and the subdivision of the table with the same term as the debt instrument or other transaction. Now find the row with the Applicable Federal Rate percentage (100%, 110%, or 120% of AFR) that must be used for the transaction. See editorials referenced above. The interest rate in the column with the compounding period you are using is the AFR that applies unless a sale or exchange is involved. Sales or exchanges get a special break; the AFR to use is the lowest rate for the 3-month period ending with the month in which a binding written contract is entered into. So check the appropriate row and column of the Tables for the 2 months preceding the sale or exchange to find the lowest interest rate percentage to use.

*Note:* Monthly interest tables were provided starting with Jan. 1985. The semiannual tables were ended after 6-30-85.

»LOWER RATES MAY BE AVAILABLE» Regs. may allow lower interest rates to be used if it is established to the satisfaction of IRS that the rates are based on the same principles as AFRs and they are appropriate for the term of the debt instruments. In addition, some transactions automatically qualify for lower interest rates than appear in the tables. So be sure to check the appropriate editorials referenced above.

## MONTHLY INTEREST RATES TABLES

	Annual	Semiannual	Quarterly	Monthly
November 1988 <sup>28</sup>				
Applicable Federal Rate AFR	8.41%	8.24%	8.16%	8.10%
110% AFR	9.27%	9.06%	8.96%	8.89%
120% AFR	10.13%	9.89%	9.77%	9.69%
		Short-Term		
AFR	8.91%	8.72%	8.63%	8.57%
110% AFR	9.82%	9.59%	9.48%	9.40%
120% AFR	10.73%	10.46%	10.33%	10.24%
		Mid-Term		
AFR	9.16%	9.96%	8.86%	8.80%
110% AFR	10.10%	9.86%	9.74%	9.66%
120% AFR	11.04%	10.75%	10.61%	10.52%
		Long-Term		
October 1988 <sup>28a</sup>				
AFR	8.56%	8.38%	8.29%	8.24%
110% AFR	9.43%	9.22%	9.12%	9.05%
120% AFR	10.31%	10.06%	9.94%	9.86%
		Short-Term		
AFR	9.19%	8.99%	8.89%	8.83%
110% AFR	10.13%	9.89%	9.77%	9.69%
120% AFR	11.08%	10.79%	10.65%	10.56%
		Mid-Term		
AFR	9.45%	9.24%	9.14%	9.07%
110% AFR	10.42%	10.16%	10.03%	9.95%
120% AFR	11.40%	11.09%	10.94%	10.84%
		Long-Term		

9.

S-28

Comm. from Michael H. Turk, Co-Chair, Cambridge  
Tenants Union Re: a pending Council order con-  
cerning the Rent Control Board's recent reduc-  
tion of the amortization rate for capital im-  
provements completed by landlords in 1988.

In City Council,

January 9, 1989

1-9-89

Referred to Calendar  
Item No. 26 Dated 1-9-89