Term	Definition
Acquisition-rehabilitation	In the context of affordable housing, this is the practice of buying residential property, making repairs and renovations to address poor conditions and extend the building's lifespan, and maintaining the property as affordable into the future, oftentimes as a means of preventing the displacement of existing residents. Often shortened to "acq-rehab."
Area Median Income (AMI)	Area Median Income, which is the household income for the median (middle) family in a specific region. This figure is used by public agencies to determine what is considered a low-income (80% of AMI), very low-income (50-60% of AMI), and extremely low-income (20-30% of AMI) household in a given city or county, as well as what is considered an "affordable" housing cost for these households. Because AMIs are typically calculated for a large area (e.g. several counties), they can result in definitions of "low income" and "affordable" that are very different than what exists at a more local, neighborhood level.
Amortization	Paying off debt on a fixed repayment schedule with regular installments of principal and interest, spread out over a pre-determined amount of time. For example, a loan that a household borrows to purchase a home (mortgage) is typically amortized over 30 years. By the end of the 30-year repayment period - assuming the borrower doesn't re-finance and keeps up with their regular payments - they will have paid off the loan and own the home outright. While the regular payment amount remains constant, they begin as mostly interest, which gradually becomes a smaller share of payments over time (with a higher share going towards principal).
Capital stack	The range of funding sources being used for a real estate development project. For affordable housing, this might include a combination of "**hard debt**" from a bank or CDFI, "**soft debt**" from public agencies, different kinds of equity contributions (such as Low-Income Housing Tax Credit equity), and contributions from the developer itself. Sources that are at the top of the "stack," such as **equity**, are commonly considered to have more risk associated with them.
Cash flow	The annual amount of money a rental property generates (or loses) after accounting for **operating costs**, **reserves**, and loan payments ("**debt service**," see below). **Equity** investors (and potentially public agencies for affordable housing developments) are paid out of this remaining money. A portion of this money may also go back to a developer, depending on the arrangement agreed to by lenders, investors, public agencies and the development team.
CDFI	Community Development Financial Institution. These are mission-driven entities that provide loans and other financial services to underserved communities. CDFIs typically make loans that a traditional bank won't offer, but not always at a more affordable rate. Rates and terms depend on the mix of funding sources being used.
Debt service	The money required to make the regular repayment of interest and principal on a loan over a specified period of time at a specified interest rate.
Debt service coverage ratio (DSCR)	This ratio is commonly used in the process of determining how much a financial institution is willing to lend for a housing development. It is calculated by dividing the annual **net operating income** by the annual amount of **debt service.** Lenders typically like to see a ratio of 1.15: 1 or 1.2: 1, or in other words, they want to see a cushion of 15% to 20% more than the loan payment in case something goes wrong. The higher the required DSCR, the smaller the loan a lender is willing to provide.

Debt: "Hard" debt vs. "soft" debt	Borrowed money with an expectation of repayment and (typically) a fixed, regular payment schedule. "Hard debt" refers to the kind of loans offered by banks and CDFIs which tend to carry market-rate interest (but can be lower), are based on the project's projected **net operating income**, and *must* be paid back. "Soft debt" refers to loans offered by public agencies, philanthropic organizations, or other lenders that offer lower rates of interest and are repaid at a lower priority (i.e. *after* making payments on hard debt). Public agency subsidies tend to be structured as soft debt with an expectation of being paid back only if there is money left over after paying for all other costs. They often include the option of having the repayment period extended at the end of the loan term if affordability restrictions are maintained.
Development Budget	Document that lists the itemized costs for a development project alongside the sources of financing that will pay for those costs. The projected sources and uses should be equal.
Due diligence	Steps taken - such as inspections and studies - to ensure a property is financially and physically sound and meets various environmental, health, planning, and safety requirements.
Equity	A source of capital that is *invested* into a project - unlike debt, which is *loaned* - and is repaid from a combination of "**cash flow**" (see above) and sale proceeds if/when the property is sold. Because this form of capital is considered higher risk (the return fluctuates, unlike a fixed debt payment, and can even go negative if a property is losing money), equity typically expects a higher rate of return. Therefore, it tends to be more expensive from the developer's perspective.
Gap Funding	For a typical affordable housing development, gap funding refers to sources that fill the "gap" left over after accounting for conventional loans, **LIHTC** equity, and other smaller sources. This usually refers to state and local funding, such as CDBG and HOME block grant money or local impact fee revenue. State programs such as the Affordable Housing and Sustainable Communities (AHSC) program also provide gap funding.
General Obligation Bond	A type of bond issued by a state or local government that is backed by the government's ability to repay the funds, typically through tax revenue. This is a common way that state and local governments raise money to finance affordable housing. (Example: Oakland Measure KK)
Leverage	Can be thought of as the way that one source of funding helps a developer get other sources of funding. It's common to hear this term when referring to the relationship between a project's revenue and the amount of debt a developer can take on to finance development (i.e., higher rents allow a developer to "leverage" more debt). Leverage is also typically required or prioritized for public funding sources. For example, a local subsidy program might have a 5:1 leverage requirement, meaning for every $1 provided by the program, it's expected that the project developer will bring in another $5 from other sources. This has a parallel to the conventional requirement of a 20% down payment on a new home; the 20% down payment is being used as "leverage" to finance a much more valuable asset (the home).

Loan-to-value (LTV) ratio	Like the **debt-service coverage ratio,** lenders use loan-to-value ratio as part of their process of reviewing a loan application. This refers to the ratio of the size of the loan to the total value of the project. The standard convention is 80% or .8, meaning a lender will be willing to provide a loan that is up to 80% of the total development cost. In reality, long-term "hard debt" tends to cover a much smaller portion of a development's cost, and the **DSCR** is more commonly the limiting factor due to relatively low rents.
Net operating income (NOI)	Total ("gross") rental revenue minus operating costs, losses from vacancy, and other expenses. NOI is the annual amount of money left over after accounting for these costs.
Operating expenses	Various costs that come with maintaining a residential property. This includes utilities, insurance, water and sewer, legal fees, and taxes, among other things.
Operating Pro Forma	A document, typically a spreadsheet, that shows the projected ongoing annual budget for a residential development, oftentimes for up to 10 - 20 years. This will show the projected revenue, expenses, and resulting **NOI** and **cash flow** on a year-to-year basis.
Preservation	In the context of affordable housing, this refers to the range of strategies aimed at maintaining the habitability and/or affordability of existing housing for lower-income residents. This term is sometimes used interchangeably with acquisition-rehab, but it's actually a much broader term.
Replacement reserves	Funds set aside for the cost of replacing building components that wear out over time (roof, HVAC systems, etc.). This is typically included in the **operating pro forma**.
Residual receipts	Similar to cash flow, “residual receipts” refers to any money remaining after the payment of all **operating costs**, **debt service**, and **replacement reserves.** This is typically the money that non-profit developers use to pay back **soft debt** that is borrowed from a public agency.
Unsubsidized / unrestricted affordable housing	Housing that lacks public subsidy or income-restrictions but nevertheless has rents that are affordable to low-income households. Often called "Naturally Occurring Affordable Housing" or "NOAH" in the affordable housing industry, a term that arguably minimizes the racist practices, historical disinvestment, and other factors that contribute to lower rents and declining physical conditions.