

Methodology for Calculating HOME Maximum Purchase Price or After-rehab Value Limits

The new HOME rule made changes to how HUD sets the maximum purchase price a grantee may set for a HOME subsidized homeownership unit. Specifically:

In the 2013 Rule, §92.254(a)(2)(iii) is amended to eliminate the use of the 203(b) limit and to change the methods for determining 95 percent of area median purchase price. The new rule states the following:

“If a participating jurisdiction intends to use HOME funds for homebuyer assistance or for the rehabilitation of owner-occupied single-family properties, the participating jurisdiction must use the HOME affordable homeownership limits provided by HUD for newly constructed housing and for existing housing. HUD will provide limits for affordable newly constructed housing based on 95 percent of the median purchase price for the area using Federal Housing Administration (FHA) single family mortgage program data for newly constructed housing, with a minimum limit based on 95 percent of the U.S. median purchase price for new construction for nonmetropolitan areas. HUD will provide limits for affordable existing housing based on 95 percent of the median purchase price for the area using Federal FHA single family mortgage program data for existing housing data and other appropriate data that are available nation-wide for sales of existing housing, with a minimum limit based on 95 percent of the state-wide nonmetropolitan area median purchase price using this data.”

PJs also continue to have the option to determine the actual 95 percent of area median value limit for their jurisdiction using the methodology in the regulation [at §92.254(a)(2)(iii)], which remains unchanged.

AFFORDABLE EXISTING HOUSING

The FY 2013 Existing Housing Limits are based on combining two data sources:

- 1) FHA data on the purchase price of existing homes insured by FHA from October 2005 through June 2013
- 2) Federal Housing Finance Agency (FHFA) data on purchase mortgages securitized by Fannie Mae and Freddie Mac between January 2006 and July 2012. GSE purchase mortgages exceeding the current FHA maximum loan limit are excluded from the file.

For each geographic area (metropolitan area or non-metropolitan county), a median purchase price is calculated. The Median purchase price is based on the most recent data that aggregates to 500 or more sales in the specific geography. If there have been 500 or more sales in the most recent 24 months, then the median for those 24 months are used. If fewer than 500, then 36 months of sales are used. If fewer than 500 sales over 36 months, then 48 months are used. This process repeats for up to 5 years of sales. If fewer than 500 sales over 5 years, then all records from 2006 forward are used to calculate the median purchase price. The result is the “Unadjusted Median Purchase Price”.¹

¹ HUD is using countywide sales data for this calculation. For a small number of HUD fair market rent metropolitan areas that split counties it is necessary to aggregate the areas to calculate a median and then split those areas. To

The rule states that there is “a minimum limit based on 95 percent of the state-wide nonmetropolitan area median purchase price”. There are two states and the District of Columbia that have no non-metropolitan areas. As such, HUD is making a technical correction to the rule that sets these minimum purchase prices as the lesser of the state non-metro or the US non-metro median. HUD calculates for each state its non-metropolitan median purchase price as well as the US non-metropolitan median purchase price. This serves as the “state floor price” for maximum purchase price limits on existing homes.

The HOME maximum purchase price for EXISTING housing is set as follows:

- (1) Calculate the greater of the unadjusted median sales price or the “state floor price”
- (2) This is multiplied times 0.95 and rounded to the nearest thousand to create the 1-unit purchase price limit.
- (3) The 2-unit, 3-unit, and 4-unit limits are a function of the 1-unit limit. Based on FHA standard practice, the following multipliers are used for 2-, 3-, and 4-unit properties: 1.28, 1.55, and 1.92 times the 1-unit limit respectively.

AFFORDABLE NEW HOUSING

The FY 2013 New Housing Limits are based only on FHA data on the purchase price of new homes insured by FHA from October 2005 through June 2013.

For each geographic area (metropolitan area or non-metropolitan county), a median purchase price is calculated. The Median purchase price is based on the most recent data that aggregates to 500 or more sales in the specific geography. If there have been 500 or more sales in the most recent 24 months, then the median for those 24 months are used. If fewer than 500, then 36 months of sales are used. If fewer than 500 sales over 36 months, then 48 months are used. This process repeats for up to 5 years of sales. If fewer than 500 sales over 5 years, then all records from 2006 forward are used to calculate the median purchase price. The result is the “Unadjusted Median Purchase Price”.¹

The rule states that there is “a minimum limit based on 95 percent of the U.S. median purchase price for new construction for nonmetropolitan areas”. This minimum limit can be found at the US Census website: <http://www.census.gov/construction/chars/sold.html>. The most current data available are for 2012 which show the non-metropolitan purchase price for a new home in the US as \$205,100.

The HOME maximum purchase price for NEW housing is set as follows:

- (1) Calculate the greater of the unadjusted median sales price or the national non-metro median (\$205,100).

adjust for variance when the areas are split 2-bedroom fair market rent is used to adjust the median purchase price to reflect relative cost differences between MSAs with split counties.

- (2) If the existing home median for the area exceeds the new home median, the new home median is raised to the existing home median.
- (3) This is multiplied times 0.95 to create the 1-unit purchase price limit
- (4) The 2-unit, 3-unit, and 4-unit limits are a function of the 1-unit limit. Based on FHA standard practice, the following multipliers are used for 2-, 3-, and 4-unit properties: 1.28, 1.55, and 1.92 times the 1-unit limit respectively.