

## **Methodology for Calculating HOME Homeownership Value Limits for FY 2016**

**(Revised February 5, 2016)**

Section 215(b) of the National Affordable Housing Act (NAHA) establishes the maximum purchase price a participating jurisdiction may set for a HOME assisted homeownership unit as “housing has an initial purchase price that does not exceed 95 percent of the median purchase price for the area, as determined by the Secretary with such adjustments for differences in structure, including whether the housing is single-family or multifamily, and for new and old housing as the Secretary determines to be appropriate.”

The implementing HOME regulation at 24 CFR § 92.254(a)(2)(iii) states that:

“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.”

Participating Jurisdictions continue to have the option to determine the actual 95 percent of area median value limit for their jurisdiction using the methodology in the HOME regulation at § 92.254(a)(2)(iii).

### **AFFORDABLE EXISTING HOUSING**

The FY 2016 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 2007 through June 2015.
- (2) Federal Housing Finance Agency (FHFA) data on purchase mortgages securitized by Fannie Mae and Freddie Mac from October 2007 through June 2015. GSE purchase mortgages exceeding the FHA high cost maximum loan limit of \$650,000 are excluded from the file.

For each geographic area (metropolitan area, county within a metropolitan area, or nonmetropolitan county), a median purchase price is calculated. The median purchase price is based on the most recent data that aggregates 500 or more sales in the specific geography.

The HOME Rule at § 92.254 (a)(2)(iii) 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 nonmetropolitan areas. As such, HUD made a technical correction in 2013 to the rule that sets this minimum purchase prices as the lesser of the state nonmetropolitan or the US nonmetropolitan median. HUD calculates for each state its nonmetropolitan median purchase price, as well as the US nonmetropolitan 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.
- (4) If a county within a metropolitan area has a higher calculated HOME Limit than the amount calculated for the metropolitan area, the county HOME Limit is used.

### **AFFORDABLE NEW HOUSING**

The FY 2016 new housing limits are based only on FHA data on the purchase price of new homes insured by FHA from October 2005 through June 2015.

For each geographic area (metropolitan area, county within a metropolitan area, or nonmetropolitan county), a median purchase price is calculated. The median purchase price is based on the most recent data that aggregates to 50 or more sales in the specific geography. If there have been 50 or more sales in the 12 months, from July 2014 to June 2015, then the median for those 12 months is used. If there are fewer than 50 sales in the 12 month period, then the 24 month period ending in June 2015 of sales is used. If there are fewer than 50 sales over 24 months, then 36 months are used. If fewer than 50 sales over 3 years, then all records from 2006 forward are used to calculate the median purchase price. The result is the “Unadjusted Median Purchase Price.”

The HOME Rule at § 92.254(a)(2)(iii) 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 was calculated by HUD using micro data from the Census Bureau data collected on sales price for new homes constructed in 2014 in nonmetropolitan areas. In 2014, HUD calculated the nonmetropolitan purchase price for a new home in the US as \$240,000. Micro data are available at the Census website: <https://www.census.gov/construction/chars/microdata.html>.

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

- (1) Calculate the greater of the unadjusted median sales price or the 2014 national nonmetropolitan median (\$240,000).
- (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.
- (5) If a county within a metropolitan area has a higher calculated HOME Limit than the amount calculated for the metropolitan area, the county HOME Limit is used.