

## **Methodology for Calculating HOME Maximum Purchase Price or After-rehab Value Limits – FY 2022**

**(revised April 2022)**

The HOME regulations at 24 CFR 92.254(a)(2)(iii) establish the maximum purchase price a participating jurisdiction (PJ) may set for a HOME subsidized homeownership unit as follows:

“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 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)].

### **AFFORDABLE EXISTING HOUSING**

The FY 2022 Existing Housing Limits are based on combining two data sources:

- 1) FHA data on the purchase price of existing homes insured by FHA from July 2016 through June 2021, and
- 2) Federal Housing Finance Agency (FHFA) data on purchase mortgages securitized by Fannie Mae and Freddie Mac between July 2016 through June 2021. GSE purchase mortgages exceeding \$822,375 (the 2021 FHA high-cost maximum loan limit) are excluded from the file.

For each geographic area (metropolitan area, county within a 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 12 months of the data collection period (July 2020 to June 2021), then the median for those 12 months is used. If fewer than 500 sales occurred over 12 months but more than 500 over the most recent 24 months, then 24 months of sales are used. If fewer than 500 sales over 24 months, then 36 months are used if there were more than 500 sales over that period. If there were fewer than 500 sales over 36 months, then sales from the entire 5-year period are used, if there are more than 10 sales for that period. The result is the “Unadjusted Median Purchase Price.”

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 made a technical correction in 2013 to the rule that sets this minimum

purchase price 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 Purchase 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 2022 New Housing Limits are based only on FHA data on the purchase price of new homes insured by FHA from July 2016 through June 2021.

For each geographic area (metropolitan area, county within a 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 50 or more sales of new homes in the specific geography. If there have been 50 or more sales in the most recent 12 months, then the median for those 12 months is used. If fewer than 50 in the most recent year but over 50 during the past two years, then 24 months of sales are used. If there are fewer than 50 sales over 24 months, then 36 months of data are used, if more than 50 sales occurred during that time period. If fewer than 50 sales over 3 years, then all records from July 2016 forward are used to calculate the median purchase price. The result is the “Unadjusted Median Purchase Price - New.”

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 was calculated by HUD using micro data on sales price for new homes constructed in 2017 in non-metropolitan areas from the Census Bureau’s Survey of Construction. These sales prices were then inflated to the most recent year of the Survey of Construction (2020) because metropolitan status is no longer captured in the survey data. Micro data are available at: <https://www.census.gov/construction/chars/microdata.html>. Using the 2017 vintage micro data, HUD calculated the 2018 median non-metropolitan purchase price for a new home in the US as \$250,000.

Because 2017 was the last year for which metropolitan status was available in the Survey of Construction micro data, the 2018 median is inflated using the Census Bureau’s Construction Price Index for new Single-Family Houses Sold, which is available at: <https://www.census.gov/construction/cpi/>. Using the price index, an inflation factor of 1.0574 was calculated, which results in a 2020 national

median non-metropolitan purchase price for new homes of \$264,000, after rounding to the nearest 1,000.

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

- (1) Calculate the greater of the “Unadjusted Median Purchase Price – NEW” or the 2020 national non-metro median purchase price of new homes (\$264,000).
- (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.