

Methodology for Calculating HOME Maximum Purchase Price or After-rehab Value Limits – FY 2023

(revised May 2023)

The HOME Rules establishes the maximum purchase price a grantee 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 2023 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 2017 through June 2022, and
- 2) Federal Housing Finance Agency (FHFA) data on purchase mortgages securitized by Fannie Mae and Freddie Mac between July 2017 through June 2022. GSE purchase mortgages exceeding \$970,800 (the 2022 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 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 2021 to June 2022), 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 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 purchase price” or the “state floor price.”
- (2) This is multiplied by 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 2023 New Housing Limits are based only on FHA data on the purchase price of new homes insured by FHA from July 2017 through June 2022.

For each geographic area (metropolitan area, county within a metropolitan area, or non-metropolitan county), a median purchase price of new homes is calculated. The Median purchase price is based on the most recent data that aggregates 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, as long as more than 50 sales occurred during that time. If fewer than 50 sales over 3 years, then all records from July 2017 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.” An alternate minimum limit was previously calculated by HUD using micro data on sales prices of new homes constructed in non-metropolitan areas from the Census Bureau’s Survey of Construction. However, the Survey of Construction ceased to include a metropolitan/non-metropolitan tag as of the 2017 data release. For the past several years, HUD inflated the 2017 estimate to current dollar terms using the Census Bureau’s Construction Price Index. However, such adjustments cannot continue indefinitely given the increasingly outdated data. This year, to smooth the transition to the new method of calculation, the greater of 1) the U.S. median purchase price for new construction in non-metropolitan areas from the full sample of FHA transaction data OR 2) last year’s U.S. non-metropolitan median for new construction from the inflated Survey of Construction estimate will be used to calculate the minimum limit. For the 12 months ending in June 2022, the national median non-metropolitan purchase price for new homes was \$257,000, while the median from

the FY 2022 Home Limits was \$264,000. Therefore, \$264,000 continues to serve as the median sales price used to calculate the minimum limit for new construction.

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 2022 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 by 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.