HOME Investment Partnership Program
Propose Rule Resale Formula Examples

Background

HOME participating jurisdictions (PJs) have communicated various challenges in implementing the statutory requirements that a HOME-assisted homebuyer unit at resale must be sold to another low-income homebuyer at a price that is both affordable to a reasonable range of low-income homebuyers and provides the original homebuyer with a fair return on their investment, including the homeowner's investment and improvements made to the property. It is difficult for PJs to create a resale formula that provides a fair return to the homeowner at a price that is affordable to a range of low-income homebuyers, without additional HOME assistance to the subsequent homebuyer.

On May 29, 2024, HUD published a proposed rule in the *Federal Register* which would update, streamline, and authorize new flexibilities in the regulations governing the HOME Investment Partnerships (HOME) Program, including a proposal to provide PJs with four resale formulas to help avoid noncompliance with the resale requirements and provide clarity and fairness to homebuyers. The four proposed resale models include itemized, appraisal, indexed and fixed rate formulas. These proposed resale formulas would be used to determine a HOME-assisted homebuyer's fair return on investment, as well as the resale price of the home. PJs may continue to design their own resale provisions.

To help PJs understand the proposed resale formulas, HUD is issuing this fact sheet to further explain each proposed formula and provide examples of how each formula would work using a hypothetical case study. PJs are *strongly encouraged to review the resale formulas and use local data to see how each proposed resale formula may work in the local housing market*. The Department is soliciting public comment on the proposed rule until July 29, 2024, and welcomes public comment on the proposed resale models. Instructions on how to submit public comments are included below.

Proposed Resale Formulas

The four proposed resale formulas include:

1) **Itemized Formula**: An itemized resale formula determines the homeowner's fair return on investment by multiplying a clearly defined, publicly accessible index or standard (e.g., change in consumer price index, median area income, or median purchase price over the term of ownership) by the sum of the homeowner's downpayment, equity from the payment of mortgage principal, and the value of any capital improvements. This itemized resale formula would permit a participating jurisdiction to decide whether it will depreciate the value of the capital improvements and whether the formula will take into consideration

any reduction in value due to damage or deferred maintenance of the property. The formula is represented as follows:

Change in clearly defined, publicly accessible index or standard
MULTIPLIED BY

$$\left(\begin{array}{c}\textit{(Homeowner's downpayment + sum of all homeowner principal payments + value of capital improvements)}\\ \textit{MINUS}\\ \textit{OPTIONAL (Depreciation of capital improvements + property damage + delayed or deferred maintenance)}\end{array}\right)$$

EQUALS
Fair return

Original sales price + Fair return = Resale price

2) **Appraisal Formula:** An appraisal resale formula determines a homeowner's fair return on investment based on the amount of market appreciation, if any, realized over the term of ownership. The amount of market appreciation over the term of ownership would be determined by subtracting the appraised value of the property at the time of initial purchase from the appraised value at the time of resale. The fair return on investment would be determined by multiplying the amount of market appreciation over the term of homeownership by a clearly defined, publicly accessible standard or index. The formula is represented as follows:

Clearly defined, publicly accessible index or standard x (New appraisal – initial appraisal) = Fair return

Original sales price + Fair return = Resale price

3) **Index Formula:** An index resale formula determines a homeowner's fair return based on the value of the homeowner's investment adjusted in proportion to changes in a specified index, such as the Consumer Price Index or U.S Housing Price Index. Using the proposed index formula, the homeowner's fair return on investment would be calculated by multiplying the change in the index during the term of ownership by the sum of the original purchase price and the value of any capital improvements. The proposed rule would permit a participating jurisdiction to decide whether to depreciate the value of any capital improvements and/or take into consideration any reduction in value due to damage or delayed maintenance of the property. The formula is represented as follows:

Change in clearly defined, publicly accessible index
MULTIPLIED BY

$$\left(\begin{array}{c}\textit{(Original purchase price + value of capital improvements)}\\ \textit{MINUS}\\ \textit{OPTIONAL (Depreciation of capital improvements + property damage + delayed or deferred maintenance)}\end{array}\right)$$

EQUALS
Fair return

Original sales price + Fair return = Resale price

4) **Fixed Rate Formula:** A fixed rate resale formula determines a homeowner's fair return on investment by applying a fixed percentage increase to the homeowner's investment each year they own the unit. The fair return on investment would be determined by multiplying the fixed percentage by the number of years the homeowner owned and occupied the home, with the resulting rate multiplied by the sum of the original purchase price of the home and the value of any capital improvements. Like the itemized and indexed formulas, the proposed rule would permit the PJ to choose whether to depreciate the value of any capital improvements made to the property and/or take into consideration any reduction in value due to damage or delayed maintenance of the property. The formula is represented as follows:

(Fixed rate x length of homeownership)
MULTIPLIED BY

$$\left(\begin{array}{c}\textit{(Original purchase price + value of capital improvements)}\\ \textit{MINUS}\\ \textit{OPTIONAL (Depreciation of capital improvements + property damage + delayed or deferred maintenance)}\end{array}\right)$$

EQUALS
Fair return

Original sales price + Fair return = Resale price

Case Study

While HUD *strongly encourages PJs to examine the four proposed resale formulas using local market data*, the Department is providing the following case study to highlight each proposed resale formula and the varying fair returns provided to each homeowner. The case study is also used to demonstrate how the PJ would calculate the subsequent sales price charged to the new buyer under each scenario.

Case Study: A HOME PJ invests $200,000 in the development of a 3-bedroom single family home and places the unit under a resale provision with a 15-year period of affordability. A low-income homebuyer purchases the home for $250,000 and places a $10,000 downpayment on the property. The homeowner obtains a mortgage for $240,000 at 3% interest. The monthly mortgage payment is $1,012. The unit appraises for $265,000 at the time of purchase.

In year 3 of the 15-year period of affordability, the homeowner decides to sell the unit. During the time of ownership, the homeowner made $2,000 of approved capital improvements, however the AC unit needs repair at an estimated cost of $300. Over the 3 years of ownership, the homeowner paid $36,432 in mortgage payments of which $10,173 was mortgage principal. The appraised value of the property at resale is $300,000.

1) Itemized Formula

Change in clearly defined, publicly accessible index or standard
MULTIPLIED BY
(Homeowner's downpayment + sum of all homeowner principal payments+ value of capital improvements)
MINUS
OPTIONAL (Depreciation of capital improvements + property damage + delayed or deferred maintenance)
EQUALS
Fair return

Original sales price + Fair return = Resale price

The PJ uses an itemized resale formula to calculate the homeowner's fair return on investment and to calculate the subsequent resale price. The PJ uses the change in average area median home price over the term of ownership as its clearly defined, publicly accessible index. During the 3 years the homebuyer owned the home, the average change in area median home price was +3.5%. Using this index and the case study presented above, the homeowner's fair return on investment would be calculated as follows:

.035 (PJ's index)
TIMES
[($10,000 (homeowner downpayment) + $10,173 (3 yrs. mortgage principle) + $2,000 (capital improvements))
MINUS
$300 (broken AC unit (deferred maintenance)]
EQUALS
$765.56* Homeowners fair return on investment

The subsequent resale price would be calculated as follows:

$250,000 (original purchase price) + $765.56 (fair return) = $250,765.56 resale price

* NOTE: The homeowner would also receive his/her $10,000 downpayment and $10,173 mortgage principal (equity) for a total return of $20,938.56 ($765.56 fair return + $20,173 (downpayment + principal).

2) Appraisal Formula

Clearly defined, publicly accessible index or standard x (New appraisal – initial appraisal) = Fair return

Original sales price + Fair return = Resale price

The PJ uses an appraisal resale formula to determine the homeowner's fair return on investment and to calculate the subsequent resale price. In its HUD-approved resale provisions, the PJ has established 20% as its resale standard. Using this standard and the case study presented above, the homeowner's fair return on investment would be calculated as follows:

.20 (PJ's index)
TIMES
($300,000 (current appraisal) - $265,000 (original appraisal))
EQUALS
$7,000* Homeowner's fair return in investment

The subsequent resale price would be calculated as follows:

$250,000 (original purchase price) + $7,000 (fair return) = $257,000 resale price

* NOTE: The homeowner would also receive his/her $10,000 downpayment and $10,173 mortgage principal (equity) for a total return of $27,173 ($7,000 fair return + $20,173 (downpayment + principal).

3) **Index Formula**

Change in clearly defined, publicly accessible index
MULTIPLIED BY

(Original purchase price + value of capital improvements)
MINUS
OPTIONAL (Depreciation of capital improvements + property damage + delayed or deferred maintenance)

EQUALS

Fair return

Original sales price + Fair return = Resale price

The PJ uses an index resale formula to calculate the homeowner's fair return on investment and to calculate the subsequent resale price. The PJ uses the average change in area median home price as its clearly defined, publicly accessible index. During the 3 years the homebuyer owned the home, the average change in median home price was +3.5%. Using this index and the case study presented above, the homeowner's fair return on investment would be calculated as follows:

.035 (PJ's index)
TIMES
[($250,000 (original purchase price) + $2,000 (capital improvements)
MINUS
$300 (broken AC unit (deferred maintenance)]
EQUALS
$8,809.50 * Homeowner's fair return on investment

The subsequent resale price would be calculated as follows:

$250,000 (original purchase price) + $8,809.50 (fair return) = $258,809.50 resale price

* NOTE: The homeowner would also receive his/her $10,000 downpayment and $10,173 mortgage principal (equity) for a total return of $28,982.50 ($8,809.50 fair return + $20,173 (downpayment + principal).

4) Fixed Rate Formula

(Fixed rate x length of homeownership)
MULTIPLIED BY

(Original purchase price + value of capital improvements)
MINUS
OPTIONAL (Depreciation of capital improvements + property damage + delayed or deferred maintenance)

EQUALS
Fair return

Original sales price + Fair return = Resale price

The PJ uses a fixed rate resale formula to determine the homeowner's fair return on investment and to calculate the subsequent resale price. In its HUD-approved resale provisions, the PJ has established 3.5% as its fixed rate. Using this rate and the case study presented above, the homeowner's fair return on investment would be calculated as follows:

(0.035 (PJ's fixed rate) x 3 (years of ownership))
TIMES
[($250,000 (original purchase price) + $2,000 (capital improvements)
MINUS
$300 (broken AC unit (deferred maintenance))]
EQUALS
$26,428.50* homeowner's fair return on investment

The subsequent resale price would be calculated as follows:

$250,000 (original purchase price) + $26,428.50 (fair return) = $276.428.50 resale price

* NOTE: The homeowner would also receive his/her $10,000 downpayment and $10,173 mortgage principal payments for a total return of $46,601.50 ($26,428.50 fair return + $20,173 (downpayment + principal).

Submit your comments

HUD is now accepting public comments until July 29, 2024.

For Electronic Submission of Comments, interested persons may submit comments electronically through the Federal eRulemaking Portal at http://www.regulations.gov. HUD strongly encourages commenters to submit comments electronically. Electronic submission of comments allows the commenter maximum time to prepare and submit a comment, ensures timely receipt by HUD, and enables HUD to make comments immediately available to the public. Comments submitted electronically through the http://www.regulations.gov website can be viewed by other commenters and interested members of the public. Commenters should follow the instructions provided on that website to submit comments electronically.

Also, comments may be submitted by mail to the Regulations Division, Office of General Counsel, Department of Housing and Urban Development, 451 7th Street, SW, Room 10276, Washington, DC 20410–0500.

Please note that Facsimile (Fax) comments are not acceptable.

Copies of all comments submitted will be available for inspection and downloading at http://www.regulations.gov.