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Q. Are Participating Jurisdictions (PJs) allowed to use an appraisal-based resale method to meet the HOME program requirements at §92.254(a)(5)(i)?

A. Yes, PJs can use an appraisal-based resale method to meet the HOME program requirements at §92.254(a)(5)(i).

Resale requirements submitted for HUD approval must establish an objective method for determining a fair return to the original homebuyer and ensure that the housing will remain affordable to a reasonable range of low-income homebuyers. Under previous guidance, the use of an appraisal to determine fair return on investment was not explicitly stated as an acceptable objective method. The Office of Affordable Housing Programs (OAHP) is now clarifying that an appraisal-based resale method can be accepted along with the other resale methods outlined in Notice CPD-12-003 (i.e., fair return calculated by determining homeowner's initial investment and any capital improvements the homeowner made to the property subject to an objective, standard index).

Appraisal-based Resale Method

Pursuant to the HOME regulations at 24 CFR §92.254(a)(5)(i), the PJ's resale requirements must specifically define "fair return on investment" and "affordability to a reasonable range of low-income homebuyers." The resale price of the home must be based on the original purchase price plus the amount of the fair return on investment to the homeowner at the time of resale. The PJ's resale requirements must also address how it will make the housing affordable to a low-income homebuyer in the event that the resale price necessary to provide "fair return on investment" is not affordable to the subsequent buyer. The PJ must clearly communicate the resale requirements, including agreement provisions and method to the homebuyer at the time of purchase.

In order for an appraisal-based resale method to comply with HOME regulations, the process for determining fair return must include two appraisals: one appraisal at initial purchase to determine the fair market value of the home, and a second appraisal at the time of the resale. Both appraisals must be conducted by an independent, third party appraiser.

To calculate the fair return on investment to the homeowner in accordance with 24 CFR §92.254(a)(5)(i), the PJ must:

1) Determine the amount of market appreciation, if any, realized over the ownership term by calculating the difference between the initial and resale appraisals. This figure represents the

basis for calculating the fair return on investment. In declining markets, it is possible that the homeowner may not realize a return.

Note: The value of any capital improvements made by the homeowner is included in the home value determined by the resale appraisal. Therefore, the PJ should not include a separate accounting and valuation of the homeowner's capital improvements as described in Notice CPD-12-003.

2) Multiply the basis (i.e., difference between initial and resale appraisals) by a reasonable, publicly accessible, clearly defined standard or index (as identified in the PJ's approved Action Plan or Consolidated Plan). In order to remain objective, the standard or index must be based on the PJ's market conditions.

(Resale Appraisal – Initial Appraisal) x Clearly defined standard or index = Fair return on investment to homeowner

Affordable price at sale + Fair return on investment to homeowner = Resale price

Example:
Fair Market Value at Sale (Initial Appraisal): $200,000
Affordable Price at Sale: $150,000
Standard or Index: 25%
Fair Market Value at Resale (Resale Appraisal): $275,000
Increase in Market Appreciation: $275,000 - $200,000 = $75,000
Fair Return on Investment: $75,000 x .25 = $18,750
Resale Price: $150,000 + $18,750 = $168,750

Cost of the Appraisal
The cost of the appraisals cannot be charged to the homeowner. The PJ can charge the initial appraisal cost as an administrative or project-related soft cost. The subsequent appraisal cost is restricted to a HOME administrative cost unless the subsequent homebuyer receives additional HOME assistance under 24 CFR 92.254(a)(9)(i)(D), in which case the appraisal cost may be charged as a project-related soft cost under 24 CFR 92.206(d)(2).

HUD's Written Approval
Per §92.254(a)(5), a PJ must receive HUD's written approval of all resale requirements in a PJ's homeownership program. A PJ must also include the resale requirements in its Annual Action Plan or Consolidated Plan. Please see Notice CPD-12-003, "Guidance on Resale and Recapture Provision Requirements under the HOME Program" for additional information on requirements for HUD's written approval.