



**U.S. Department of Housing and Urban Development
Public and Indian Housing**

Special Attention of:
Office Directors of Public Housing;
Regional Directors; Public Housing
Agencies

Notice PIH 2012-3 (HA)

Issued: January 27, 2012

This notice remains in effect until
amended, revoked or superseded

Cross References:

Subject: Housing Choice Voucher – Homeownership Option 10 Year Asset Exclusion

1. **Purpose**

The purpose of this Notice is to remind Public Housing Agencies (PHA) of the regulatory provision regarding how the value of a home purchased under the Housing Choice Voucher (HCV) homeownership option (24 CFR 982 Subpart M) is treated for the purpose of determining the family’s annual income. The rule (24 CFR 5.603(b) *Net Family Assets*. (4)) exempts the home purchased with voucher assistance from being counted as an asset for the first 10 years after the closing date. HUD issued the final rule on September 12, 2000. PHAs and industry professionals need to be aware that the exemption terminates after a family’s 10th year of participation in the program. The Notice provides guidance on including the value of the home in “net family assets” starting in the eleventh year following the purchase of the home. The Notice also establishes safe harbors that a PHA may rely upon to determine the cash value of real estate purchased under the homeownership option.

2. **Applicability**

This Notice applies to recipients of HCV homeownership assistance who have reached the 10 year anniversary of their closing, as well as all PHAs that provide homeownership assistance to the above participants.

3. **Background**

A component of calculating a family’s annual income requires the PHA to determine net family assets. Normally, the amount of equity in a home would be counted in the calculation of net family assets and subject to 24 CFR 5.609(b)(3). The regulation requires that annual income include either the actual income derived from net family assets, or a percentage of the value of such assets based on the current passbook savings rate.

As a result of the notice and comment period for the original proposed homeownership rule (65 FR 55163), comments identified the fact that immediate inclusion of the asset value of the newly purchased home could become a serious detriment to the family's success in the program if the home value realized rapid appreciation. In response to this, HUD revised the definition of "net family assets" found in 24 CFR 5.603(b). The revised definition excluded the value of a home currently being purchased with Section 8 homeownership assistance for the first 10 years after the purchase date of the home.

4. Calculating Net Family Assets from Equity in Real Property

The method for calculating income from assets applies to income from all net family assets, which for families in the eleventh year of their participation in the homeownership option, will include income from equity from the home they purchased with homeownership assistance.

Equity in Real Property

Equity in real property must be included in the total assets of a family. Real Property includes land and real estate owned by the applicant or participant household, but excludes personal property owned by an individual, including equipment, furniture and fixtures. Equity is the estimated current market value of the asset less the unpaid balance on all loans secured by the assets.

Calculate equity in real property as follows:

$$\text{Market Value} - \text{Loan (Mortgage)} = \text{Equity}$$

Determining Market Value

Market value is the price a buyer would pay to a seller for a property in its present condition. A number of factors may affect a residential property's market value, some examples of factors include, home condition, lot size, size and number of rooms, construction quality, how quickly homes in the area are selling, and location.

One way to determine the market value of a residential property is to use the sales comparison approach. The comparison approach involves examining recent sales of **at least three** properties in the surrounding (or similar) neighborhood that possess comparable factors that affect market value. Local assessors' offices should be able to provide lists of recent sales that one can browse and compare. Some municipalities and private companies including some internet-based companies provide local sales information online at little or no cost. Many local newspapers often publish sales reports in the real estate or business sections. The PHA may conduct a sales comparison, or the PHA may rely on an independent sales comparison to assess market value.

As an alternative, in most jurisdictions, properties in cities, towns, or villages must be assessed at market value for local tax purposes. The assessor will use appraisal techniques, such as the sales comparison, as well as other approaches, to arrive at a property's estimated market value. This market value can be easily obtained by reviewing the local assessment roll or the owner's most

recent property tax liability bill. The PHA may rely on value derived from the most recent tax assessor's determination of market value.

Any of these methods of determining market value are acceptable. PHAs should determine what method(s) they would use to determine market value and include such information in their Administrative Plan. It is important that the PHA should use a consistent method for all units if practical.

Loan (Mortgage) Balance

The monthly mortgage statement of the participant will usually contain information relative to the loan balance remaining on the mortgage. The statement may also include a payoff amount for the loan, which refers to the amount of money, including any prepayment penalty, which it will take to pay a loan off in full. The payoff amount will differ from the loan balance because the payoff amount often changes on a daily basis, depending on how the interest is compounded. The PHA should first try to use the payoff amount for the loan, if that information is available. However, if the PHA only has loan balance information, the PHA may deduct that amount from the market value.

Cash Value of the Asset

The PHA must also deduct from the equity the reasonable costs for converting the asset to cash.

Calculate the net cash value of real property as follows:

$$\text{Equity} - \text{Expenses to Convert to Cash} = \text{Net Cash Value}$$

or, incorporating the Equity formula from above:

$$\text{Market Value} - \text{Loan (Mortgage)} - \text{Expenses to Convert to Cash} = \text{Net Cash Value}$$

If the Net Cash Value is a negative number, the PHA should not make an adjustment to net family assets for this asset.

Expense to convert to cash

Expenses to convert to cash may include costs such as sales commissions, settlement costs, and transfer taxes. Realtor expenses traditionally range approximately 4 to 6 percent of the sales price. Taxes, both transfer taxes and property taxes, and any legal fees associated with the closing and finalizing of homes sale range between approximately 2 to 4 percent of the sales price. Some mortgages may also contain a prepayment penalty, which could be deducted from the proceeds of the sale of the home. Obtaining actual costs is not possible since there is not an actual transaction taking place. Therefore, for purposes of calculating expenses to convert to cash for real property the Department is establishing a safe harbor of up to 10 percent of the market value of the home. PHA's should have policies that address the methodology for

determining the net cash value of real property (and other assets) in their Administrative Plan, including the PHA's reliance on HUD's safe harbor, if applicable.

5. **Additional Information**

For Further Information: Contact Brian Gage, or Christopher Bailey, Office of Housing Voucher Management and Operations Division, Room 4210, Department of Housing and Urban Development, 451 7th Street, SW, Washington, DC 20410, at (202) 708-0477.

/s/
Sandra B. Henriquez, Assistant Secretary
for Public and Indian Housing