

April 17, 2024

Services

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I.R.S. Revenue Procedure 2024-21: Average Area Purchase Prices

On April 16, 2024, the Internal Revenue Service released [Revenue Procedure 2024-21](#) containing safe harbor numbers to be used in establishing average area purchase prices to be used with regard to mortgage loans financed with tax-exempt bonds under Section 143 of the Internal Revenue Code of 1986 (the “Code”) or mortgage credit certificates (“MCCs”) under Section 25 of the Code.

The Revenue Procedure sets forth the average area purchase price for most statistical areas in the country. For those which are not listed, an issuer should use the average area purchase price labeled “ALL OTHER AREAS (floor)” set forth at the end of the list of statistical areas. This establishes a safe harbor that can be used until superseded by a new revenue procedure next year. This revenue procedure supersedes last year’s revenue procedure (Revenue Procedure 2023-22). See below for a discussion of the transition period rules.

The numbers set forth in this Revenue Procedure represent the current FHA loan limits divided by 0.878. Thus, if the FHA loan limits change in the future, an issuer has the option of either using the safe harbor numbers in Revenue Procedure 2024-21 or using the newer FHA loan limits divided by 0.878.

Keep in mind that these numbers represent the average area purchase price for each statistical area. To get to the purchase price limit under Section 143(e) or Section 25(c)(2)(A)(iii)(III) of the Code, an issuer must multiply the average area purchase price by 0.9 (or for a targeted area loan, multiply by 1.1).

This Revenue Procedure also establishes the new U.S. national average purchase price at \$510,100 (a minor increase from last year’s \$503,300). The new average area purchase prices and U.S. average purchase price are to be used in computing the high housing cost adjustment to the income limit under Section 143(f) and Section 25(c)(2)(A)(iii)(IV) of the Code. While an issuer has the option of applying either this year’s HUD median income numbers or last year’s HUD median income numbers for purposes of determining the applicable income limit, the applicable purchase price information must be used in calculating the high housing cost adjustment to the income limit. Thus, issuers of single-family mortgage revenue bonds and MCCs should be warned that the calculation of the new high housing cost adjustment must be recomputed in order to determine the applicable mortgagor income limits using the new safe harbor numbers.

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Effective Date

This new average area and U.S. average purchase price information can be used for mortgage loans committed or made on or after 4/16/2024. Thus, it is not applicable to mortgage loans for which commitments were made to mortgagors before that date.

The IRS also provided the usual type of transition rule – last year's safe harbor average area purchase prices and U.S. average purchase price (Revenue Procedure 2023-22) can continue to be applied to mortgagors to whom the mortgage commitment was made on or before 6/15/2024, provided that the bonds issued to finance that mortgage loan were sold (signing of bond purchase agreement), or MCC program established (and private activity cap exchanged), before 5/16/2024. Stated in the negative, an issuer will not be able to apply last year's purchase price numbers to specific mortgage loans if either of the following is true:

- (i) The loan commitment to the mortgagor is made on or after June 15, 2024; or
- (ii) The bonds that finance the mortgage loan are sold (or the applicable MCC program is established) on or after May 16, 2024.

Possible Changes in 2025

The IRS noted that the relationship calculated under the current methodology (using FHA purchase price limits) and actual area purchase prices has grown weaker over the last decade. As a result the Treasury Department and the IRS are soliciting comments on using HUD data or other alternative data. Noting that such a change would lead to large changes in safe harbor numbers, the IRS is considering phasing in the changes over a period of years, and is also soliciting comments on implementing such changes.

