Sweat equity: crunching the numbers

When a borrower works with a nonprofit to help build a new home or rehab an existing home that the nonprofit sells to the borrower, the value of that labor can be converted into sweat equity, which increases the borrower's equity in the home. The examples below show how lenders and nonprofits can work together to determine how to incorporate sweat equity into a home loan.

Calculating sweat equity

Sweat equity can come from several sources, including volunteer labor from workforce development programs, and it can be calculated using several different rates, which is one reason why Fannie Mae requires that lenders work with a nonprofit partner experienced in calculating sweat equity.

Here are a few things to keep in mind:

- Sweat equity can include the value of labor from volunteers who are not the homeowner.
- A homeowner can accrue sweat equity by supporting the nonprofit on projects unrelated to the new home.

In the example below, the nonprofit has based the homeowner's hourly rate on the U.S. Department of Housing and Urban Development's Self-Help Opportunity Program and volunteer rates on state-specific data.

SWEAT EQUITY

SOURCE	HOURS	$ HOURLY RATE	TOTALS
Homeowner	500	$12	$6,000
Volunteers	1,200	$20	$24,000
Total sweat equity			**$30,000**

Putting it all together

	SAMPLE CALCULATIONS	NOTES
Housing provider costs	$60,000	
Value of sweat equity	$30,000	
Sales price	**$90,000**	The sales price, as determined by the selling nonprofit housing provider, should include all costs incurred to build the home, including the value of sweat equity. See sample sweat equity calculations on the previous page.
Sweat equity direct down payment	$30,000	See above.
Total down payment	**$30,000**	
Appraised value	$100,000	
Property value to determine LTV	$90,000	Use the lower of the sales price or the current appraised value to determine the LTV ratio.
Original unpaid principal balance (UPB)	**$60,000**	This indicates the amount of the home's price the borrower is financing with a mortgage.
Loan-to-value (LTV) ratio	**67%**	Mortgage insurance is required if LTV ratio is greater than 80%.
Estimated closing costs	$1,800	Origination fee, title exam, title insurance, survey, attorney's fees, and prepaid items, such as taxes and insurance escrow payments. Closing costs are 3% – 5% of UPB. In this example, $1,800 is 3% of the $60,000 UPB.