Addendum

Calculation of 2016 Maximum Conforming Loan Limits under HERA

Baseline National Conforming Loan Limit

The Housing and Economic Recovery Act of 2008 (HERA) requires FHFA to "establish and maintain" an index for tracking average home prices and to annually adjust the baseline loan limit, currently set at $417,000, to reflect changes in the national average home price. In May of this year, FHFA published a Notice and Request for Input announcing its intent to use the expanded-data House Price Index (HPI) for this purpose.[1] FHFA received generally favorable feedback to the Request for Input and in October published a Final Notice announcing that it would use the expanded-data HPI to track average home prices.[2]

In determining 2016 maximum loan limits FHFA did not change the baseline maximum conforming loan limit of $417,000 because, according to the expanded-data HPI, national average home prices in the third quarter of 2015 remained approximately 3.7 percent below price levels in the third quarter of 2007.[3] After a period of declining home prices, HERA requires that prior price declines be fully offset before a loan limit increase can occur. During the recent financial crisis, the average U.S. home price declined substantially and, despite recent price increases (the expanded-data index grew roughly 5.8 percent over the last four quarters),[4] a small deficit remains.

Loan Limits in High-Cost Areas

HERA provisions set loan limits as a function of local-area median home values. Where 115 percent of the local median home value exceeds the baseline loan limit, the local loan limit is set at 115 percent of the median home value. The local limit cannot, however, be more than 50 percent above the baseline limit. In the District of Columbia and all states except Alaska and Hawaii, the highest possible local area loan limit for a one-unit property is $625,500 (150 percent of $417,000).

Consistent with FHFA's prior practice, in determining the 2016 HERA limits, FHFA used median home values estimated by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD). FHA has calculated those median values for the purpose of determining its own lending limits. Once the FHA loan limits are announced, FHA will allow a 30-day appeals period for the submission of data suggesting a potentially higher median home value for a given area. If FHA changes its median price estimates as a result of any appeals and if those changes would impact the FHFA conforming loan limits, FHFA may adjust the conforming loan limits and announce the resulting changes.

In determining the 2016 HERA loan limits in high-cost areas, FHFA continued its policy of not permitting declines relative to prior HERA limits. While HERA did not explicitly prohibit

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[1] See https://www.federalregister.gov/articles/2015/05/27/2015-12781/notice-of-establishment-of-housing-price-index.

[2] See https://www.federalregister.gov/articles/2015/10/22/2015-26778/notice-of-establishment-of-housing-price-index.

[3] The change was calculated as the percentage change in the seasonally adjusted U.S. expanded-data index. 3.7 percent = (207.0512 – 215.0838)/215.0838

[4] The four-quarter price increase of 5.8 percent = (207.0512-195.7773)/195.7773.

declines in high-cost area loan limits, that approach is consistent with the statutory procedure for responding to changes in prices on a national basis. Consistent with this policy, the 2016 loan limits reflect the higher of the limits calculated for 2016 under the HERA formula and the HERA loan limits for years 2009 through 2015.

As noted in the accompanying news release, the 2016 maximum loan limits are higher than 2015 HERA limits in 39 counties. Those increases are a function of higher median home values. The latest year showed strong home price gains throughout the country and in some locations those gains were sufficiently large to elevate loan limits above levels in any prior year.

Alaska, Hawaii, Guam and the U.S. Virgin Islands

As with most of the rest of the country, maximum conforming loan limits in 2016 for Alaska, Hawaii, Guam and the U.S. Virgin Islands will remain at 2015 HERA levels. The baseline loan limit in these areas is statutorily set at 50 percent above the baseline limit for the contiguous United States. The 2016 maximum loan limit for one-unit properties in all of Alaska, Guam, and the U.S. Virgin Islands is $625,500. In Hawaii, loan limits for one-unit homes range from $625,500 to $721,050.

Loan Limits for Multi-Unit Properties

As in the past, the HERA maximum conforming loan limit for two-, three-, and four-unit properties are simply multiples of the one-unit limits. The downloadable HERA maximum loan limits file shows the 2016 maximum conforming loan limits for two-, three-, and four-unit properties.

For most areas other than Alaska, Hawaii, Guam, and the U.S. Virgin Islands, loan limits are $533,850, $645,300, and $801,950 for two-, three- and four-unit homes respectively.

Acquisitions of Loans Originated in Certain Prior Years

Under a series of laws enacted over the past several years, including the Economic Stimulus Act of 2008, the American Recovery and Reinvestment Act of 2009, Public Law 111-88, and Public Law 111-242, higher conforming loan limits will apply to Fannie Mae and Freddie Mac acquisitions of certain seasoned mortgages in 2016. Loans acquired in 2016 that were originated between July 1, 2007, and Sept. 30, 2011, will be subject to previously-announced limits determined under those laws. The applicable loan limits for such seasoned loans are as high as $729,750 for one-unit properties in the contiguous United States.