<u>Addendum</u>

Calculation of 2017 Maximum Conforming Loan Limits under HERA

Baseline National Conforming Loan Limit

The Housing and Economic Recovery Act of 2008 (HERA) requires that the baseline loan limit be adjusted each year to reflect the changes in the national average home price. HERA specifies that the Federal Housing Finance Agency (FHFA) "establish and maintain" an index for tracking average home prices for this purpose. In May 2015, FHFA published a Notice and Request for Input announcing its plans for using the seasonally adjusted expanded-data HPI for this purpose.[1] Having received generally favorable feedback to the announcement, in October 2015, FHFA published a Final Notice declaring that it would follow through with the original plan.[2]

In determining 2017 maximum loan limits under the terms of HERA, FHFA used the expanded-data HPI. Because HERA requires, after a period of price declines, prior declines be offset before the baseline loan limit can be increased, it was not sufficient for FHFA to calculate the index change over the latest four quarters. Rather, the relevant calculation was the net index change between 2007Q3 (the benchmark period before the price declines) and 2016Q3—the latest period. The change in the index over that interval was:

$$(218.91674706 - 215.22692741)/215.22692741 \quad = 1.714386 \text{ percent}$$

To arrive at the new baseline loan limit, the prior baseline loan of $417,000 was increased by this percentage. Consistent with prior practice, the value was rounded down to the nearest $50.

Assuming prices rise over the next four quarters, because there will be no historical price declines to offset (as there were this year), the change in the baseline loan limit will be simply equal to the change in the expanded-data HPI between 2016Q3 and 2017Q3.

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 for 2017 is $636,150 (150 percent of $424,100).

Consistent with FHFA's prior practice, in determining the 2017 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

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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.

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 2017 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 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 2017 loan limits reflect the higher of the limits calculated for 2017 under the HERA formula and the HERA loan limits for years 2009 through 2016.

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

Special statutory provisions provide for a baseline maximum loan limit that is 50 percent higher in Alaska, Hawaii, Guam, and the U.S. Virgin Islands than in the contiguous U.S. Because the baseline loan limit for the contiguous U.S. rose for 2017, the baseline loan limit in these statutorily defined areas also increases.

Loan Limits for Multi-Unit Properties

HERA requires that baseline maximum loan limits for two-, three-, and four-unit properties be increased by the same percentage as the increase in the one-unit limit. Accordingly, the baseline maximum conforming loan limit for two-, three-, and four-unit properties have been increased by 1.714 percent. The individual values have been rounded down to the nearest $50, consistent with the rounding practice for the one-unit loan limit. For most areas other than Alaska, Hawaii, Guam, and the U.S. Virgin Islands, the maximum loan limits for 2017 are $543,000, $656,350, and $815,650 for two-, three- and four-unit homes respectively.

In high-cost areas, the two-, three-, and four-unit maximum loans limits are calculated by taking 115 percent of the local one-unit median home value and multiplying the product by 2-, 3-, and 4-unit multipliers. Those multipliers correspond to the ratios of the 2-, 3-, and 4-unit baseline loan limit to the one-unit limit identified in HERA.[3] The result is then compared to the local ceiling loan limit (for the relevant-sized property) to ensure that the loan limit is not set above the ceiling for the area.[4]

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 2017. Loans acquired in 2017 that were originated

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[3] The two-unit, three-, and four-unit multiples are 1.28021583 (=$533,850/$417,000), 1.54748201 (=$645,300/$417,000), and 1.92314149 (=$801,950/$417,000) respectively. Note that the ratios have been calculated using the initial baseline loan limits specified in HERA and not the 2017 baseline loan limits. The multipliers would be trivially different if the new baseline loan limits were used to form the ratios. (The differences would be a function of rounding). To maintain consistency over time, FHFA intends to continue using the ratios implicit in the original HERA loan limits.

[4] Addendums to prior loan limit announcements simply indicated that 2-, 3-, and 4-unit maximum loan limits were set as multiples of the one-unit limits. Although that produced the appropriate maximum loan limits in prior periods, the new changes in the baseline loan limits and the associated rounding issues mean that this process would generate trivially different results unless the new multiples were used. As indicated above, to maintain consistency over time, FHFA has opted to use the original implicit multiples expressed in HERA.

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.