

Addendum Notes Regarding 2009 Loan Limits

In setting forth a method for determining conforming loan limits for Fannie Mae and Freddie Mac, the Housing and Economic Recovery Act of 2008 (HERA)¹ stipulates that the national loan limit will be at least \$417,000 for one-unit homes in the continental United States and cannot decline from year to year. The Act provides for higher limits in high-cost areas where home price medians are high, but does not provide guidance concerning how “area” should be defined or how price medians should be calculated.

For the purposes of setting 2009 loan limits, FHFA will use house price medians calculated by the Federal Housing Administration (FHA). While FHFA has opted to use FHA-calculated price medians for determining 2009 loan limits, it plans to study the feasibility and desirability of alternative approaches and will be soliciting comments in the future.

Methodological details will be provided by FHA concerning its median price calculations. The approach will broadly mimic that used in estimating house price medians in March 2008 under the Economic Stimulus Act. In that instance, FHA developed a nationwide set of county price medians using information from a number of sources, including: county-level deed recordation summary data, metropolitan area median prices published by the National Association of Realtors, recent-mover valuations from the American Community Survey, and a state-level nonmetropolitan house price index series produced by the Office of Federal Housing Enterprise Oversight.

Consistent with requirements of the National Housing Act for FHA loans, one key characteristic of FHA’s approach is that loan limits in defined metropolitan statistical areas (MSAs) will be based on the median price in the highest-cost component county. For all other areas, individual county-specific medians will be calculated and used for high-cost area loan limit determination. Median prices will be estimated using only sales data from 2008, and based on available data at the time the loan limits are established.

Following release of the 2009 loan limits, FHA will allow a 30-day appeals period. Information regarding the appeals process will be provided in a mortgagee letter released at the time the new loan limits are made public. Appeals are to be based upon data suggesting a potentially higher price median for a given area than was used in the initial loan limit calculation. Price medians used for loan-limit determination will not be allowed to decline as a result of the appeals process.

¹ See sections 1124 and 1322 of the Act.