# Addendum

## Calculating 2027 Conforming Loan Limit Under HERA

*National Baseline*

The Housing and Economic Recovery Act of 2008 (HERA) requires the U.S. Federal Housing (FHFA) to adjust the baseline conforming loan limit (CLL) each year to reflect changes in the national average home price. HERA specifies that the Agency "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 nominal, seasonally adjusted, expanded-data House Price Index® (HPI®) for this purpose.[1] Based upon generally favorable feedback to the announcement, FHFA published a Final Notice in October 2015 stating that it would follow that plan.[2]

In determining the 2027 CLL baseline, FHFA used the nominal, seasonally adjusted, expanded-data HPI to calculate the proportional change between the third quarter 2025 and third quarter 2026 index values, expressed mathematically as:

$$(426.09055865 - 414.79004117) / 414.79004117 = 2.72439460 \text{ percent}$$

This is the standard calculation HERA prescribes,[3] which results in a 2027 baseline loan limit of $855,400.

*High-Cost Area Limits and the National Ceiling*

HERA provides for FHFA's setting of a high-cost area loan limit as a function of local-area median home values. The local CLL is higher in areas where 115 percent of the local median home value exceeds the baseline loan limit. However, the local loan limit cannot be more than 50 percent above the baseline loan limit. In the District of Columbia and in all states except Alaska and Hawaii, the highest possible local area loan limit, or "ceiling," for a one-unit property for 2027 is $1,283,100 (150 percent of $855,400).

Consistent with prior practice, FHFA used median home values estimated by the Federal Housing Administration (FHA) of the Department of Housing and Urban Development (HUD).[4] FHFA compares county median home values within metropolitan and micropolitan statistical areas and then uses the highest value to determine the local area loan limit.[5]

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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] As discussed in prior releases, the calculation is slightly more involved in periods immediately following house price declines. In such instances, prior declines must be "made up" before any loan limit increase can take place. No such adjustments were necessary in calculating the 2027 CLL.

[4] 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 stemming from appeals, and if those changes would impact the FHFA conforming loan limits, FHFA may adjust the conforming loan limits and announce the resulting changes.

[5] Metropolitan and micropolitan statistical areas are defined in Office of Management and Budget (OMB) Bulletin 23-01, which was published in July 2023 at https://www.whitehouse.gov/wp-content/uploads/2023/07/OMB-Bulletin-23-01.pdf.

In determining the 2027 CLL, FHFA continued its practice to not permit declines relative to prior loan limits. While HERA does not explicitly prohibit declines in high-cost area loan limits, this approach is consistent with the statutory procedure for responding to changes in prices on a national level. Consistent with this practice, the 2027 CLLs reflect the higher of the limit calculated for 2027 under the HERA formula and the HERA loan limits for the years 2009 through 2026.

*Special Exceptions*

Statutory provisions establish a baseline CLL for Alaska, Hawaii, Guam, and the U.S. Virgin Islands that is 50 percent higher than the baseline loan limit applicable to the contiguous United States. Because the baseline CLL for the contiguous United States rose for 2027, the baseline CLL in these statutorily defined areas also increased.

*Loan Limits for Multi-Unit Properties*

HERA requires that baseline 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 loan limits for two-, three-, and four-unit properties increased by 2.72439460 percent.[6] For most areas (other than Alaska, Hawaii, Guam, and the U.S. Virgin Islands), the loan limit for 2027 are $1,095,250, $1,323,900, and $1,645,350 for two-, three-, and four-unit homes, respectively.

In high-cost areas, FHFA calculates the two-, three-, and four-unit CLL by taking 115 percent of the local one-unit median home value and multiplying the product by two-, three-, and four-unit multipliers. Those multipliers correspond to the ratios of the two-, three-, and four-unit baseline loan limits to the one-unit limit HERA identifies.[7] FHFA then compares the result to the local area loan limit (for the relevant-sized property) to ensure that it is below the ceiling.

*Acquisitions of Loans Originated in Certain Prior Years*

Under a series of laws enacted in past 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 loan limits have applied to Fannie Mae and Freddie Mac acquisitions of certain seasoned mortgages. Acquired loans that originated between July 1, 2007, and Sept. 30, 2011, are subject to previously announced loan limits determined under those laws. The applicable CLL for such seasoned loans has been as high as $729,750 for one-unit properties in the contiguous United States. However, in 2024, the baseline loan limit surpassed the statutory limit set for these seasoned loans. Consequently, the baseline loan limit is the higher of the two limits, and because FHFA continues its practice to not permit declines relative to prior loan limits, the Enterprises will no longer be required to compare the two limits to determine eligibility.

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[6] The individual limits have been rounded down to the nearest $50, consistent with the rounding practice for the baseline one-unit loan limit. The high-cost area loan limits are rounded down to the nearest $25.

[7] The two-unit, three-unit, 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 these unit multiples have been applied initially using the ratios implicit in the original HERA and the respective multi-unit limits have been increasing by the same percentage as the baseline limit specified in HERA. The multipliers would be trivially different if the new baseline limits were used to form the ratios.