

Addendum

Calculation of 2022 Conforming Loan Limits under HERA

National Baseline

The Housing and Economic Recovery Act of 2008 (HERA) requires that the baseline conforming loan limit (CLL) 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 nominal, 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 the original plan.²

In determining 2022 CLLs, FHFA used the nominal, seasonally adjusted, expanded-data HPI to calculate the proportional change between the 2020Q3 and 2021Q3 index values, or

$$(328.13182917 - 277.95477273) / 277.95477273 = 18.05223776 \text{ percent}$$

This is the standard calculation prescribed by HERA.³

High-Cost Area Limits and the National Ceiling

HERA provides for a high-cost area limit to be set as a function of local-area median home values. The local CLL is higher in expensive areas where 115 percent of the local median home value exceeds the baseline limit. 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, or the “ceiling”, for a one-unit property for 2022 is \$970,800 (150 percent of \$647,200).

Consistent with prior practice, FHFA used median home values estimated by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD).⁴ County median home values were compared within metropolitan and micropolitan statistical areas; the highest value then was used to determine the local area loan limit.⁵

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 2022 CLLs.

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 OMB Bulletin 20-01, which was published in March 2020 at <https://www.whitehouse.gov/wp-content/uploads/2020/03/Bulletin-20-01.pdf>.

In determining the 2022 CLLs, FHFA continued its practice of not permitting declines relative to prior limits. While HERA does 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 practice, the 2022 CLLs reflect the higher of the limits calculated for 2022 under the HERA formula and the HERA loan limits for years 2009 through 2021.

Special Exceptions

Statutory provisions provide for a baseline CLL that is 50 percent higher in Alaska, Hawaii, Guam, and the U.S. Virgin Islands than in the contiguous U.S. Because the baseline CLL for the contiguous U.S. rose for 2022, the baseline CLL in these statutorily defined areas also increased.

Limits for Multi-Unit Properties

HERA requires that baseline CLLs for two-, three-, and four-unit properties be increased by the same percentage as the increase in the one-unit limit. Accordingly, the baseline CLLs for two-, three-, and four-unit properties have been increased by 18.05223776 percent.⁶ For most areas other than Alaska, Hawaii, Guam, and the U.S. Virgin Islands, the loan limits for 2022 are \$828,700, \$1,001,650, and \$1,244,850 for two-, three- and four-unit homes respectively.

In high-cost areas, the two-, three-, and four-unit CLLs 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.⁷ The result is then compared to the local area loan limit (for the relevant-sized property) to ensure that the loan limit 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 CLLs have applied to Fannie Mae and Freddie Mac acquisitions of certain seasoned mortgages. Acquired loans that were originated between July 1, 2007, and Sept. 30, 2011, are subject to previously-announced limits determined under those laws. The applicable CLLs for such seasoned loans are as high as \$729,750 for one-unit properties in the contiguous United States. These criteria continue to apply except for loans located in high-cost areas. In such cases, those seasoned loans will be assigned whichever value is greater between that prior amount of \$729,750 and the appropriate loan limit in the particular high-cost area.

⁶ The individual values 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-, 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 CLLs specified in HERA and not the 2021 baseline CLLs. The multipliers would be trivially different if the new baseline limits were used to form the ratios; any differences would be a function of rounding. To maintain consistency over time, FHFA intends to continue using the ratios implicit in the original HERA CLLs.