Addendum

Calculation of 2015 Maximum Loan Limits under HERA

Baseline National Conforming Loan Limit

In determining 2015 maximum loan limits under the terms of the Housing and Economic Recovery Act (HERA), FHFA did not change the baseline maximum conforming loan limit for the United States. The baseline limit, $417,000 for one-unit properties in the contiguous U.S., was left unchanged based on historical index values from FHFA's monthly and quarterly House Price Index (HPI).

HERA requires that the baseline loan limit be adjusted each year to reflect changes in the national average home price. After a period of declining home prices, however, 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. While estimates vary, the FHFA monthly and quarterly HPI declined by close to 20 percent through 2011. Although FHFA's monthly and quarterly HPI both have shown price increases in periods since, the increases have not been sufficient to offset the losses. As such, pursuant to the terms of HERA, the baseline maximum loan limit has been left unchanged. In making this determination, as in the past, the FHFA HPI has been used. The same result would apply, however, if any of several other commonly-cited house price metrics were used. FHFA continues to evaluate a number of methodologies for tracking changes in average house prices.[1]

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 ($417,000 in most of the U.S.), 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 2015 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 2015 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

[1] See, for example, Andrew Leventis, "An Approach for Calculating Reliable State and National House Price Statistics," FHFA Research Paper, September 2010, available at http://www.fhfa.gov/PolicyProgramsResearch/Research/PaperDocuments/20100930_RP_CalculatingStateNationalHousePriceStatistics_508.pdf.

for responding to changes in prices on a national basis. Consistent with this policy, the 2015 loan limits reflect the higher of the limits calculated for 2015 under the HERA formula and the HERA loan limits for years 2009 through 2014.

As noted in the accompanying news release, the 2015 loan limits are higher than 2014 HERA limits in 46 counties. Those increases are a function of increases in 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 2015 for Alaska, Hawaii, Guam and the U.S. Virgin Islands will remain at 2014 HERA levels. The baseline loan limit in these areas is statutorily set at 50 percent above the baseline limit for the contiguous United States.

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 conforming loan limits file shows the 2015 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 2015. Loans acquired in 2015 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.