Addendum

Calculation of 2019 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 2019 maximum loan limits under the terms of HERA, FHFA used the seasonally adjusted expanded-data HPI. The relevant calculation was the proportional change between the 2017Q3 and 2018Q3 index values. The increase in the index over that interval was:

$$(247.35191482 - 231.37662756)/231.37662756 \quad = 6.90445160 \text{ percent}$$

This calculation is the standard one prescribed by HERA.[3] Assuming prices rise over the next four quarters, as with this year's change, next year's adjustment in the baseline limit will be simply equal to the percentage increase in the seasonally adjusted expanded-data HPI over the preceding four quarters.

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 2019 is $726,525 (150 percent of $484,350).

Consistent with FHFA's prior practice, in determining the 2019 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.

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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 discuss 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.

When calculating median home values in Metropolitan and Micropolitan Statistical Areas, FHA used the Metropolitan and Micropolitan area definitions set forth in OMB Bulletin 18-03, which was published in April 2018.[4] A subsequent OMB publication, Bulletin 18-04 published in September, modified the April definitions for some areas. Implementing those new definitions in a short period of time raised significant operational risks; therefore, FHA opted to use the April definitions when calculating median home values. Although median home values could differ under the new definitions in some cases, the use of the April definitions has virtually no practical impact on Fannie Mae and Freddie Mac limits. Accordingly, FHFA had no concerns with FHA's use of the April definitions.

In determining the 2019 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 2019 loan limits reflect the higher of the limits calculated for 2019 under the HERA formula and the HERA loan limits for years 2009 through 2018.

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 2019, 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 roughly 6.9044516 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 2019 are $620,200, $749,650, and $931,600 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.[5] 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.

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[4] See https://www.whitehouse.gov/wp-content/uploads/2018/04/OMB-BULLETIN-NO.-18-03-Final.pdf.

[5] 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 2019 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.

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 2019. Loans acquired in 2019 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.