HIGHLIGHTS
Inclusion of Expensive Homes in the OFHEO HPI

OFHEO's HPI is calculated using mortgage data obtained from the Enterprises. Because the Enterprises only purchase and securitize mortgages that meet the conforming loan limit, the dataset that is used in computing the HPI may be somewhat underrepresentative of expensive homes. Buyers of expensive homes frequently require “Jumbo” mortgages having balances in excess of the conforming limit.¹

As the following graphs illustrate, however, expensive homes are present in significant numbers in the OFHEO dataset. Homebuyers are increasingly financing relatively expensive homes with a combination of conforming mortgages and second liens.

The graphs analyze the ratio of home prices in the HPI dataset to the conforming loan limit for California as a whole and some of its metropolitan areas. The fraction of acquired loans having ratios within specific ranges (e.g., 0-100 percent of the loan limit, 100-125 percent of the loan limit, etc.) are reported. The distribution is shown for the last several years, where the year shown is the year that the Enterprises acquired the loans.

For the entire state, the proportion of conforming loans that involve expensive homes is striking and has increased dramatically over the last few years. In 2002, approximately half of the Enterprises' California acquisitions involved homes that were valued at or below the conforming limit. By 2005,² only about one-third of loans were secured by homes valued in the same range. Similarly, the fraction of the acquisitions having home values that exceeded the conforming limit by 50 percent or more grew from about 16.7 percent to approximately 22.0 percent in that same time frame.

The same general finding and trends hold for some of California’s largest cities. In San Diego,³ only about 6.6 percent of the Enterprises' 2005 acquisitions are for homes priced at or below the conforming limit, down from approximately 41.2 percent in 2002. Indeed, almost one-third of the Enterprises’ San Diego acquisitions are for homes valued at 50 percent or more above the conforming limit.

Although the mortgages acquired in the Los Angeles metropolitan area⁴ tend to be for more modest homes than those in San Diego, as the graphs illustrate, the representation of expensive homes is significant and has been growing at a robust rate. Only about one-quarter of loans acquired for the Los Angeles area in 2005 have been for homes valued at or below the conforming limit. By contrast, in 2002, about 55 percent of loans were for homes in the same relative price range.

¹ See Frequently Asked Questions Number 6. The 2005 limit for one-unit, detached homes in the Continental United States is $359,650.
² The 2005 data are for the first and second quarters of this year.
³ The “San-Diego-Carlsbad-San Marcos, CA” MSA.
⁴ The “Los-Angles-Long Beach-Glendale, CA” MSAD.
Acquisitions in the Anaheim area\textsuperscript{5} have followed the same trend. The percentage of loans secured by homes valued at or below the limit fell from approximately 30.2 percent to about 4.8 percent between 2002 and the first two quarters of 2005. Currently, over 26 percent of acquired Anaheim loans are for homes valued at more than 75 percent above the limit.

Prices in the San Francisco area\textsuperscript{6} have been and continue to be high relative both to other California cities and the conforming loan limit. Only about 3 percent of acquired San Francisco mortgages are for homes valued at or below the conforming limit, a proportion that has not changed since 2002. As is evident in the graph, the remaining San Francisco-area data are largely skewed toward the extreme upper-end of the price distribution. In the first two quarters of this year, homes valued at more than 75 percent above the conforming limit comprised about 61.2 percent of the Enterprises’ San Francisco acquisitions. This represents a significant increase over 2002, when the fraction was close to 48 percent.

\textsuperscript{5} The “Santa Ana-Anaheim-Irvine, CA” MSAD.
\textsuperscript{6} The “San Francisco-San Mateo-Redwood City, CA” MSAD.
The Ratio of House Prices to the Conforming Loan Limit:
The Fraction of Enterprise Loans Having Ratios with Specific Ranges

(California)

Source: Loan data from Enterprises

Note: Proportions are calculated using those properties that have multiple transactions and are used in the construction of the OFHEO HPI.
The Ratio of House Prices to the Conforming Loan Limit:
The Fraction of Enterprise Loans Having Ratios with Specific Ranges

(San Diego-Carlsbad-San Marcos, CA)

Source: Loan data from Enterprises

Note: Proportions are calculated using those properties that have multiple transactions and are used in the construction of the OFHEO HPI.
The Ratio of House Prices to the Conforming Loan Limit:
The Fraction of Enterprise Loans Having Ratios with Specific Ranges

(Los Angeles-Long Beach-Glendale, CA MSAD)

Source: Loan data from Enterprises

Note: Proportions are calculated using those properties that have multiple transactions and are used in the construction of the OFHEO HPI.
The Ratio of House Prices to the Conforming Loan Limit:
The Fraction of Enterprise Loans Having Ratios with Specific Ranges

(Santa Ana-Anaheim-Irvine, CA MSAD)

Source: Loan data from Enterprises

Note: Proportions are calculated using those properties that have multiple transactions and are used in the construction of the OFHEO HPI.
The Ratio of House Prices to the Conforming Loan Limit: The Fraction of Enterprise Loans Having Ratios with Specific Ranges

(San Francisco-San Mateo-Redwood City, CA MSAD)

<table>
<thead>
<tr>
<th>Acquisition Year</th>
<th>Ratio (R) &lt;= 100%</th>
<th>100% &lt; Ratio &lt;=125%</th>
<th>125% &lt; Ratio &lt;=150%</th>
<th>150% &lt; Ratio &lt;=175%</th>
<th>Ratio &gt; 175%</th>
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<td>2005 (Q1-Present)</td>
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Source: Loan data from Enterprises

Note: Proportions are calculated using those properties that have multiple transactions and are used in the construction of the OFHEO HPI.