

Implementation of FHA Single-Family Loan Limits Under the Housing and Economic Recovery Act of 2008

What is Changing on January 1, 2014

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I. Introduction

Existing loan limit authority, first given to HUD by Congress in the Economic Stimulus Act of 2008 (ESA) and extended by the Consolidated and Further Continuing Appropriations Act of 2012 (P.L. 112-55) will expire at the end of December 2013. The FHA single-family loan limits for 2014 will be established using the permanent authority under section 203(b)(2) of the National Housing Act, as amended by the Congress in the Housing and Economic Recovery Act of 2008 (HERA). This shift in legal authority results in the national loan limit "ceiling" dropping from \$729,750 to \$625,500, and the limit for "high-cost areas" being set at 115 percent of area median price, rather than 125 percent. Additionally, with the expiration of the authority to continue using the ESA loan limits for 2008, loan limits will also realize a reduction based on the shifting of the baseline median home prices used for loan limit calculation. The loan limits in use in 2013 are substantially based on the ESA limits from 2008, which were calculated using median home prices from years prior to the recent housing recession (i.e., pre-2008). In order to preserve the stability of loan limits to the greatest extent possible, FHA calculates its loan limits under section 203(b)(2) of the National Housing Act using the highest median home prices since the amendment of the statutory loan limit calculations by HERA in 2008. Application of these new provisions and corresponding median home prices in setting FHA loan limits will result in many localities having lower maximum mortgage amount limits in January than are available today.

It is important to note that the pending changes only affect high-cost areas, where current loan limits are above the national floor of \$271,050. Most of the 3,234 counties and county equivalents across the country will see no change in their FHA loan limits in January. Only 652 high-cost-area counties will have lower limits; an additional 89 will see an increase in their limits. Though some of the downward adjustments are large in dollar terms, it is often the case that 2014 loan limits are substantially above the 2013 area median prices.

II. State-Level Impacts

California has the most counties with downward adjustments (54), while Texas has the most with upward adjustments (27). Actual impacts on FHA endorsement activity, however, are not directly tied to how many counties are affected, or even to the size of loan limit declines. A state-by-state analysis of potential impacts on FHA activity is provided in Table 1. Potential impact on borrowers currently using FHA insurance is largest in Arizona, where 9.7 percent of (non-

streamline) loans insured in FY 2013 would not qualify for FHA insurance under the 2014 limits. FHA estimates that many borrowers may reduce their needs to accommodate lower limits (e.g., purchase a slightly smaller home, and/or increase. down payment); by allowing for a \$10,000 margin 8.1 percent of FHA activity in Arizona may still exceed the loan limit threshold for FHA insured financing, representing 15.6 percent of dollar volumes of FHA endorsements in the State. Behind Arizona are California and Nevada, where 7.7 and 7.6 percent of endorsements in FY 2013 would no longer be eligible for FHA insurance, or 6.9 and 6.4 percent after allowing for a \$10,000 margin.

III. How HUD Determines Loan Limits Under section 203(b)(2) of the National Housing Act

Through HERA, Congress amended the National Housing Act's loan limits and permanently tied the loan limit "ceiling" and "floor" to what is commonly called the national conforming loan limit, which is the standard national limit for Fannie Mae and Freddie Mac. Specifically, FHA's national "floor" limit and "ceiling" limit are each calculated as percentages of the national conforming (i.e., 65 percent and 150 percent of that amount, respectively) limit. The National Housing Act also sets loan limits in high cost areas between the national "floor" and "ceiling" at 115% of the median home prices for the area. The National Housing Act also specifically provides that the "area" used is the applicable Metropolitan Statistical Area (MSA) as established by the Office of Management and Budget and that the median home price for the MSA is to be based on the median prices for the county with the highest median price within the MSA.

Since HERA amended section 203(b)(2) of the National Housing Act, HUD has maintained a unified list of median home prices that are used for determining high-cost-area limits by year. HUD has established the relevant median home prices used in calculating those limits based on the highest price points since enactment of HERA (i.e., from 2008 to present). As a result, for areas heavily affected by home price declines in the recent recession, the initial benchmark year under HERA, 2008, will still provide the high-price-point. For other areas, the high price point may be any year from 2009 to 2013. Table 2 provides a summary of the number of counties whose indexed house price is highest in each year, from 2008 through 2013. HUD provides this information in data files available from its FHA Mortgage Limits web page.²

This approach is consistent with that taken by HUD in 2011 when the increased loan limit authority under ESA temporarily expired. While FHA did implement the National Housing Act loan limits in October 2011, Congress quickly renewed HUD's authority for the higher ESA loan limits.³ FHA continued to operate under these higher "emergency" loan limits that required HUD to establish area loan limits at the level of the higher of those established under the ESA in 2008, and those that would be in effect under the National Housing Act, as amended by HERA.

See, section 238 of H.R. 2112, Consolidated and Further Continuing Appropriations Act, 2012, Public Law 112-55

¹ In particular, the FHA statute found at 12 USC 1709(b)(2)(A) references the loan limits found in the sixth sentence of the Freddie Mac statute found at 12 USC 1454(a)(2)..

² See the File Layout Page link at the bottom of https://entp.hud.gov/idapp/html/hicostlook.cfm.

With the expiration of this higher authority on December 31, 2013, HUD will again solely employ its National Housing Act authority to establish loan limits for loans beginning in January 2014.

Table 1. FHA Single Family Insurance Potential Effects of Loan Limit Adjustments in January 2014 by Property State^a

States	Fiscal Year 2013 Endorsements ^b		Mortgage Amounts Above 2014 Loan Limits		Mortgages Amounts Greater than 2014 Loan Limits by more than \$10,000	
	Loan	Dollar Volume	Count	Dollar	Count	Dollar
	Counts	(million)	Share	Share	Share	Share
US	833,109	\$146,550	2.9%	6.9%	2.4%	6.0%
AL	12,397	1,666	0.1	0.2	0.0	0.1
AK	1,938	454	2.2	2.8	1.0	1.4
AZ	26,474	4,399	9.7	18.2	8.1	15.6
AR	7,215	914	-	-	-	-
CA	89,102	24,720	7.7	14.2	6.9	13.0
CO	23,290	4,643	4.1	7.3	3.2	5.7
CT	8,749	1,789	4.7	9.8	4.1	8.8
DE	2,634	498	3.5	6.6	2.8	5.3
DC	1,138	407	6.6	13.2	6.2	12.5
FL	49,915	8,016	4.7	10.1	3.9	8.5
GA	27,297	3,897	2.0	4.8	1.5	3.5
HI	791	274	5.6	10.1	5.2	9.4
ID	4,849	686	2.1	4.5	1.6	3.5
IL	28,266	4,359	1.8	4.8	1.5	4.0
IN	23,657	2,901	0.2	0.5	0.1	0.4
IA	6,440	802	-	-	-	-
KS	8,125	1,056	-	-	-	-
KY	11,588	1,508	1.3	2.9	1.0	2.3
LA	11,678	1,767	1.3	2.4	0.5	0.9
ME	1,843	315	4.4	8.1	3.9	7.2
MD	18,538	4,557	3.3	7.4	2.9	6.6
MA	11,571	2,870	5.9	10.3	5.0	9.0
MI	27,441	3,264	2.0	4.8	1.4	3.5
MN	17,307	2,821	2.9	6.1	2.3	4.9
MS	5,988	801	-	-	-	-
MO	18,625	2,445	0.8	1.8	0.4	0.8
MT	2,215	371	2.3	4.2	1.4	2.5
NE	6,384	823	-	-	-	-
NV	11,650	2,027	7.6	14.7	6.4	12.8
NH	3,397	667	4.6	8.3	3.8	7.1
NJ	19,120	4,609	2.1	4.9	1.9	4.5
NM	5,621	821	0.2	0.4	0.1	0.3
NY	30,923	6,952	1.4	3.8	1.1	3.4
NC	19,549	2,835	2.8	5.6	2.0	4.0
ND	2,527	413	0.7	1.3	0.5	0.9
OH	32,999	4,090	1.5	3.8	1.2	2.9
OK	12,666	1,643	-	-	-	-
OR	9,293	1,780	4.6	8.6	3.7	7.1
PA	31,893	4,861	2.4	5.3	1.9	4.3
RI	3,181	558	1.0	2.5	0.8	2.2
SC	11,239	1,612	1.7	3.6	1.2	2.7
SD	2,214	305	-	-	-	-

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		Year 2013 Mortgage Amounts Above Loan Limits			Mortgages Amounts Greater than 2014 Loan Limits by more than \$10,000	
	Loan Counts	Dollar Volume (million)	Count Share	Dollar Share	Count Share	Dollar Share
T01		• •				
TN	20,426	2,992	0.6	1.7	0.5	1.5
TX	83,142	12,268	0.2	0.4	0.1	0.2
UT	14,138	2,644	6.8	13.6	5.8	11.9
VT	609	111	-	-	-	-
VA	24,059	5,597	1.9	5.0	1.7	4.7
WA	17,956	3,814	3.4	7.5	2.9	6.5
WV	2,764	357	0.4	1.0	0.3	0.8
WI	9,466	1,326	1.7	3.6	1.2	2.6
WY	1,844	319	0.1	0.2	0.1	0.1
AS	5	-	-	-	-	-
GU	7	1	-	-	-	-
MP	4	-	-	-	-	-
PR	6,920	918	1.5	5.6	1.4	5.3
VI	42	10	-	-	-	-

^aFHA loan limits are determined at the county and metropolitan-area level, and by number of living units in the property. The January 2014 adjustments represent the first full implementation of rules established in the Housing and Economic Recovery Act of 2008.

Table 2. Source Year for County Median Home Price Used to Calculate 2014 FHA Loan Limits ^a						
Source Year ^b	County Equivalents	Share of all Counties				
2008	1,478	45.7%				
2009	596	18.4				
2010	153	4.7				
2011	153	4.7				
2012	121	3.7				
2013	733	22.7				

^aFollowing statutory rules for national loan limit determination, HUD indexes county level home prices using 2008 as a base year. The highest price point since 2008 is used for loan limit determination. Most counties will have median prices low enough that they are eligible only for the national loan limit floor of \$271,050, regardless of which year represents the high price point.

^bHome Purchase and fully underwritten refinance mortgages only (excludes streamline refinance loans).

^bBecause loan limits must be determined in advance of each (calendar year), HUD estimates median home prices for an eight-month "look back" period each year, which is January through August.





Figure 2. FHA 2014 Loan Limits Changes Relative to FHA 2013 Loan Limits

