



## Stimulus Package Increases in FHA and GSE Loan Limits

- **Background:** The Economic Stimulus Act of 2008 (the Package) temporarily increases the loan limits for the Federal Housing Administration (FHA) and authorizes temporary increases<sup>1</sup> in the conforming loan limits (the GSE limit) for Fannie Mae and Freddie Mac (the GSEs) in most areas of the nation.
- The FHA loan limits under the Package apply to FHA single-family mortgages<sup>2</sup> where a lender issues credit approval from the date of enactment through December 31, 2008 and for GSE mortgages originated from July 1, 2007 through December 31, 2008, which may be purchased by the GSEs anytime during their mortgage terms. These new limits do not apply to FHA Home Equity Conversion Mortgages (HECMs).
- **Before Enactment of the Package:** FHA loan limits for 2008 for single-family properties were 95% of the area median house price, as determined by HUD, for each area (usually on a county or city basis) with the following additional conditions:
  - For areas where 95% of the median house price was at or less than 48% of the Freddie Mac conforming loan limit (GSE limit), the FHA loan limits were set at, and were to go no lower than a “floor” of 48% of the GSE limit or \$200,160 for a one-unit property (with increased limits for other single-family properties up to four-units).<sup>3</sup>
  - For “high cost areas” – where the calculation of 95% of the median house price exceeds the floor of 48% of the GSE limit – the FHA limits were calculated at 95% of area median house price up to an “ceiling” of 87% of the GSE limit of \$362,790 for one-unit properties.<sup>4</sup>
  - The GSE limit for 2008 was \$417,000<sup>5</sup> in all the states and territories except Alaska, Hawaii, Guam and the Virgin Islands where the limit increased by 50% to \$625,500.
- **Under the Package:** The FHA and the GSEs’ loan limits increase to 125 percent of the area median house price for the property up to a statutory cap of 175 percent of the current GSE limit of \$417,000 or \$729,750 for a single-family property. Neither the new FHA nor the new GSE loan limits are uniform across the country.
  - **For FHA:** The FHA limits in high cost areas are calculated at 125% of the median house price for the particular area, as determined by HUD, with the following additional conditions:
  - A new “floor” is established at 65% instead of 48% of the GSE limit. For areas where 125% of the median house price is equal to or less than 65% of the GSE limit, the FHA loan limit is set at, and

<sup>1</sup> Under the GSEs’ Charters and the Stimulus Package, the GSEs have discretion to set their respective limits at any amount up to the maximums. In the past, the GSEs have set their limits exactly at these maximums.

<sup>2</sup> Mortgages insured under the following sections of the National Housing Act - Sections 203(b) (FHA’s basic 1-4 family mortgage insurance program), 203(h) (mortgages for disaster victims), 203(k) (rehabilitation mortgage insurance), 223(e) (properties in declining areas) and 234(c) (condominium units) and other single-family FHA mortgage programs with the exception of the Home Equity Conversion Mortgage Program (HECM).

<sup>3</sup> Two-Unit - \$256,248, Three-Unit - \$309,744 and Four-Unit - \$384,936.

<sup>4</sup> Two-Unit - \$464,449, Three-Unit \$561,411 and Four-Unit \$697,696.

can go no lower than, 65% of the GSE limit or \$271,500 for a one-unit property (with increased limits for other single-family properties up to four-units).<sup>6</sup>

- For “high cost areas”--where the calculation of 125% of the median house price exceeds the floor of 65% of the GSE limit--FHA limits are calculated based on 125% of area median house price up to a new “ceiling” of 175% of the GSE limit or \$729,750 for a one-unit property.
- Additionally, the Secretary of HUD has discretionary authority, if market conditions warrant, from the date of enactment of the Package to December 31, 2008, to increase the FHA “ceiling” for particular sizes or areas of residences by not more than \$100,000 to \$829,750.
- **For the GSEs:** The GSE limit is also calculated based on 125% of the median house price in any given area, as determined by HUD.
- For areas where 125% of the median house price is less than or equal to the GSE limit, the GSE limit is set at, and can go no lower than, the GSE limit of \$417,000.
- For “high cost areas”--where the calculation of 125% of the median house price exceeds the GSE limit—the new GSE limits are calculated based on 125% of the area median house price up to 175% of the GSE limit or \$729,750.
- For Alaska, Hawaii, Guam and the Virgin Islands the new limitations may be increased by 50% subject to area median house prices and interpretation of the legislation (up to \$1,094,625).
- **Effective Date:** Although the limits became effective when the bill was signed, the Package requires HUD to publish revised median house prices and principal obligation limits to implement the legislation “as soon as practicable,” no later than within 30 days.
- MBA is advised HUD will publish the prices and limits as required and will host a call with the industry. We also understand that the Office of Federal Housing Enterprise Oversight (OFHEO) may review the implementation of the GSE limit under its regulatory authorities.
- **Using the New Limits:** Lenders can estimate the new FHA limits for areas currently at the “floor” using the new floor for FHA loans. Lenders can also expect that in lower cost housing markets, where median prices are below \$333,600, that the GSE limit will remain at \$417,000 (the current GSE limit). Lenders can also apply the new “ceiling” of \$729,750 in those few high cost areas that are known to have area median house prices that when multiplied by 125% will exceed \$729,750.
- The more difficult problem involves areas in-between the “floor” and the “ceiling.” Lenders can arrive at an imprecise estimate of what the limits might look like using the latest data from the National Association of Realtors area median house prices multiplying them by 125%. MBA must emphasize that these figures are only current as of Q4 2007 and may differ considerably from HUD’s determinations of applicable area median prices.
- MBA cautions that members should await further guidance regarding the new limits. MBA will continue to work with the regulators to facilitate expeditious implementation and to assist its members.

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<sup>6</sup> These increased limits are determined in the case of 2-, 3-, and 4-family residences using the percentage of such median price that bear the same ratio to such median price as the dollar limitation for 2008 under section 305(a) of the Freddie Mac Act.