Addendum

Calculation of 2023 Conforming Loan Limit Values under HERA

National Baseline

The Housing and Economic Recovery Act of 2008 (HERA) requires that the baseline conforming loan limit (CLL) value 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 nominal, seasonally adjusted, expanded-data FHFA House Price Index (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 the original plan.[2]

In determining the 2023 CLL baseline value, FHFA used the nominal, seasonally adjusted, expanded-data FHFA HPI to calculate the proportional change between the 2021Q3 and 2022Q3 index values, or

(369.50228847 – 329.29910809) / 329.29910809 = 12.20871220 percent

This is the standard calculation prescribed by HERA.[3]

High-Cost Area Limit values and the National Ceiling

HERA provides for a high-cost area conforming loan limit value to be set as a function of local-area median home values. The local CLL value is higher in expensive areas where 115 percent of the local median home value exceeds the baseline value. The local value cannot, however, be more than 50 percent above the baseline value. In the District of Columbia and all states except Alaska and Hawaii, the highest possible local area CLL value, or the "ceiling," for a one-unit property for 2023 is $1,089,300 (150 percent of $726,200).

Consistent with prior practice, FHFA used median home values estimated by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD).[4] County median home values were compared within metropolitan and micropolitan statistical areas; the highest value was then used to determine the local area conforming loan limit value.[5]

---

[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 discussed 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. No such adjustments were necessary in calculating the 2023 CLL value.

[4] 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 stemming from appeals, and if those changes would impact the FHFA conforming loan limits, FHFA may adjust the conforming loan limit values and announce the resulting changes.

[5] Metropolitan and micropolitan statistical areas are defined in OMB Bulletin 20-01, which was published in March 2020 at https://www.whitehouse.gov/wp-content/uploads/2020/03/Bulletin-20-01.pdf.

In determining the 2023 conforming loan limit values, FHFA continued its practice of not permitting declines relative to prior limit values. While HERA does not explicitly prohibit declines in high-cost area CLL values, that approach is consistent with the statutory procedure for responding to changes in prices on a national level. Consistent with this practice, the 2023 CLL values reflect the higher of the limit values calculated for 2023 under the HERA formula and the HERA loan limit values for years 2009 through 2022.

Special Exceptions

Statutory provisions provide for a baseline CLL value that is 50 percent higher in Alaska, Hawaii, Guam, and the U.S. Virgin Islands than in the contiguous U.S. Because the baseline CLL value for the contiguous U.S. rose for 2023, the baseline value in these statutorily defined areas also increased.

Limit Values for Multi-Unit Properties

HERA requires that baseline values for two-, three-, and four-unit properties be increased by the same percentage as the increase in the one-unit CLL value. Accordingly, the baseline value for 2-, 3-, and 4-unit properties have been increased by 12.20871220 percent.[6] For most areas other than Alaska, Hawaii, Guam, and the U.S. Virgin Islands, the CLL values for 2023 are $929,850, $1,123,900, and $1,396,800 for 2-, 3- and 4-unit homes respectively.

In high-cost areas, the 2-, 3-, and 4-unit CLL value is 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 value to the one-unit CLL value identified in HERA.[7] The result is then compared to the local area loan limit value (for the relevant-sized property) to ensure that it is below the ceiling value.

Acquisitions of Loans Originated in Certain Prior Years

Under a series of laws enacted in past 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 loan limit values have applied to Fannie Mae and Freddie Mac acquisitions of certain seasoned mortgages. Acquired loans that were originated between July 1, 2007, and Sept. 30, 2011, are subject to previously-announced limit values determined under those laws. The applicable CLL value for such seasoned loans is as high as $729,750 for one-unit properties in the contiguous United States. These criteria continue to apply except for loans located in high-cost areas. In such cases, those seasoned loans will be assigned whichever value is greater between that prior amount of $729,750 and the appropriate CLL value in the particular high-cost area.

---

[6] The individual values have been rounded down to the nearest $50, consistent with the rounding practice for the baseline one-unit loan limit value. The high-cost area loan limit values are rounded down to the nearest $25.

[7] The two-unit, three-unit, 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 limit value specified in HERA and not the 2023 baseline limit value. The multipliers would be trivially different if the new baseline limit values were used to form the ratios; any differences would be a function of rounding. To maintain consistency over time, FHFA intends to continue using the ratios implicit in the original HERA CLL.