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A Canary in the Mortgage Market?

Why the Recent FHA and GSE Loan Limit Reductions Deserve Attention

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On October 1, 2011, the maximum loan size eligible for Federal Housing Administration (FHA) insurance or a guarantee from Fannie Mae or Freddie Mac (known as "Government-Sponsored Enterprises" or "GSEs") dropped in dozens of metropolitan areas around the country. When this change took effect, a segment of the mortgage market in each of these areas instantly lost some or all federal backing. If enough borrowers seeking loans in this segment are unable to find financing, the result will be further downward pressure on the corresponding segment of the housing market. In this report, we use recent mortgage origination data to explore some of the possible implications of this policy change for the housing market and the U.S. mortgage finance system. Our analysis suggests that only a small portion of the total national mortgage market will be affected. However, replacing the portion of the mortgage market losing all federal support will require a significant increase in the market served only by the private sector. Accordingly, how the private sector responds to this increase in demand could help inform efforts to further reduce the role of the federal government in the mortgage finance system.

Background

A key function of the GSEs and FHA is to help stabilize housing prices by ensuring the availability of mortgage credit even when private financing might otherwise withdraw from the market. Towards this end, in 2008, Congress significantly increased the maximum size of mortgage loans eligible for Fannie Mae and Freddie Mac guarantees (known as the "conforming loan limits") and for FHA insurance. Although the prior loan size limits were already high enough to accommodate over 90 percent of all borrowers in 2009, the increases extended the government's countercyclical support to an even higher percentage of the U.S. housing market. Without these increases, policymakers feared that reduced credit availability would further push down home values in higher priced tiers of the market, harming the struggling economy. As a result of these and other changes, by the end of 2009, more than 95 percent of all mortgage lending was government-supported, either directly (through FHA or another government agency) or indirectly (through the GSEs, which entered federal conservatorship in 2008).[1] Appendix I provides additional information about the loan limit increases, including a chronology of the relevant legislation and the formulas that the laws specify for determining the limits.

Even after the loan limit increases, a small share of all mortgage originations in 2009 still exceeded the loan limits. Mortgages that are larger than the conforming limits are known as "jumbo" loans, and are the only mortgages originated in any number without government or GSE backing.[2] The jumbo mortgage market differs from the market for

1 Krainer, J. (2009, October 26). Recent Developments in Mortgage Finance. *Federal Reserve Bank of San Francisco Economic Letter*, 33.

2 Mortgages that are smaller than the current conforming limit, but larger than the $417,000 conforming limit in effect nationwide before the 2008 increases, are sometimes called "jumbo conforming." We use "jumbo" only to describe loans that are larger than the conforming limits in effect at the time of origination.

GSE and FHA-backed loans in a number of important ways. First, because jumbo loans lack government insurance or a GSE guarantee, they typically have higher interest rates than other loans to make up for the additional risk to investors (though recently this rate spread has narrowed). In addition, lenders require borrowers to make larger down payments for jumbo loans than for FHA loans (and at times, than for GSE-backed loans) and may impose other stricter requirements as well.[3] For these reasons, many borrowers who qualify for an FHA or GSE-backed loan might not be able to qualify for an equal-sized jumbo loan in the current market if it were available. Finally, jumbo mortgages are currently financed differently from GSE- and government-backed loans. Prior to the financial crisis, lenders often sold jumbo loans and other mortgages originated without government support (e.g., subprime loans) to third parties, usually to be securitized. As a result of the financial crisis and high default and foreclosure rates, however, the "private label" securities market (which includes securities backed by jumbo loans)[4] has been largely dormant since 2007. In the absence of this market, lenders have had to retain virtually all new jumbo loans in their portfolios in recent years, bearing all of the associated risk. GSE and FHA loans, in contrast, are still securitized and, because of their government backing, are purchased by a wide variety of investors.

The October 1, 2011 Limit Reductions

On October 1, 2011, the previous statutory method for determining the loan limits expired and was replaced by a formula Congress established in the Housing and Economic Recovery Act of 2008 (HERA).[5] The change affected individual metropolitan areas differently depending on their housing prices. In 214 metropolitan areas (containing 29 percent of the U.S. metropolitan area population), neither the FHA nor the GSE loan limit changed. In 152 metropolitan areas (containing 71 percent of the U.S. metropolitan area population), the FHA limit decreased. Of these, in 50 metropolitan areas (containing 37 percent of the U.S. population), located primarily in California and the East Coast, the GSE limits decreased as well, either by the same amount or to a lesser extent

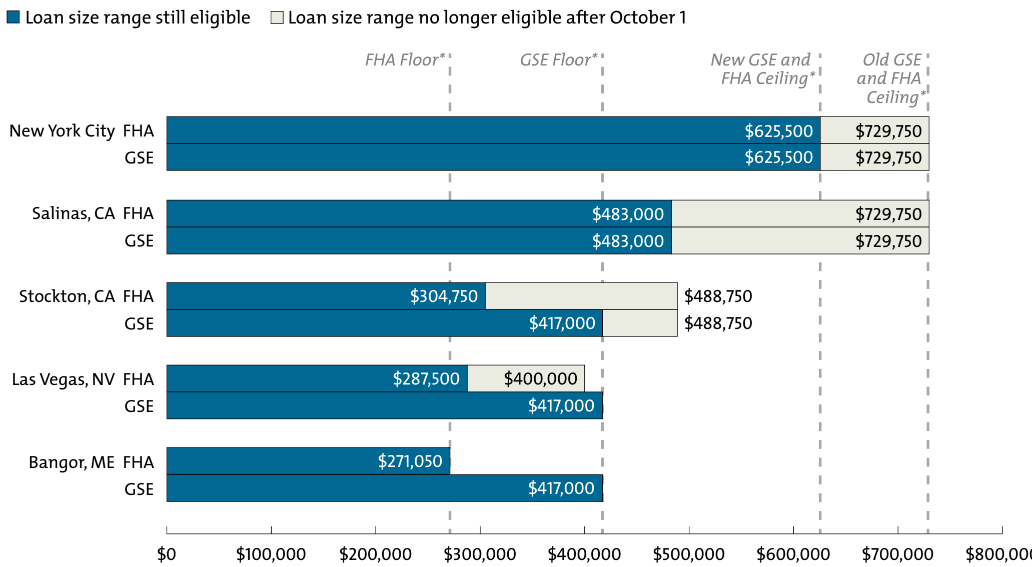
3 There is no standardization of the underwriting of jumbo loans (as there is for GSE and FHA loans) and there is no publicly available data source about the types of underwriting requirements individual lenders impose for jumbo loans. However, one expert recently reported that jumbo lenders require higher down payments and higher credit scores than GSE-backed loans. See Andriotis, A. (2011, July 16). Big Mortgages Are Back. The Wall Street Journal. Retrieved from: http://online.wsj.com/article/SB10001424052702304223804576446042270052566.html.

4 Securities backed by jumbo loans or other mortgages issued without government or GSE support are called "private label" or "non-agency" to distinguish them from securities issued or backed by Fannie Mae, Freddie Mac and Ginnie Mae (which securitizes FHA and other government-backed mortgages). The overall market for the purchase and sale of mortgages which have already been originated, which includes private label securities, is more broadly referred to as the "secondary market."

5 The legislation that set the recently expired loan limits was initially scheduled to expire at the end of 2009, but Congress extended the higher limits through September, 2011. At least two were introduced that would have extended the previous loan limits past September 30th: H.R. 2508 (introduced July 13, 2011) and S. 1508 (introduced August 2, 2011)) but neither were signed into law before changes took effect.

than the FHA limits. Figure 1 provides five examples of metropolitan areas that the loan limit reductions affected in different ways. Appendix I describes the method HERA specifies for calculating a metropolitan area's loan limits how it differs from the recently expired method.

Figure 1: Examples of the Recent FHA and GSE Loan Limit Changes



**For explanation of floors and ceiling see Appendix I.*

To estimate the possible significance of these changes to the housing market, we overlay the recent loan limit changes onto home purchase mortgage origination data collected under the Home Mortgage Disclosure Act (HMDA) for each individual metropolitan area in 2009, the most recent year data were available when we performed our analysis.[6] Among other characteristics, HMDA data include a loan's size and location and whether or not it was FHA-insured or otherwise backed explicitly by the U.S. government (e.g., the Veterans Administration, Farm Services Administration or Rural Housing Service). Although HMDA does not reliably specify whether a loan was guaranteed by a GSE, we assume for our calculations that all "conventional" mortgages (loans originated without backing from the FHA or other government agencies) that were smaller than the GSE loan limits in 2009 were, in fact, GSE-guaranteed.[7]

Nationwide, we find that only about 14,000 conventional home purchase loans and 4,000 FHA home purchase loans issued to owner-occupants in 2009 had a loan size that is newly ineligible for both GSE and FHA backing in the metropolitan area where the

6 See the Notes and Methodology section for more information about HMDA. 2010 HMDA data were made publicly available in late September, 2011 and we will update our analysis using those data.

7 In earlier years, conventional loans would also include a large number of privately securitized subprime loans. Because this lending industry largely disappeared in 2007, virtually all conventional loans originated in 2009 that were not jumbo loans were likely GSE-backed.

loan was issued now that the changes have taken effect. Another 13,000 FHA mortgages issued to owner-occupants in 2009 had a loan size and location that are no longer eligible for FHA backing, but do still qualify for GSE backing (e.g., $300,000 mortgages issued in Las Vegas). Together, these three groups of loans made up about 1.5 percent of all 2009 home purchase mortgage originations and 3.6 percent of all dollars lent to owner-occupant homebuyers in metropolitan areas. (More detailed results of our analysis of 2009 home purchase lending data are shown in Appendix II.) The small share of dollars lent and loans originated to this slice of the mortgage market suggests that even if many potential borrowers seeking mortgages no longer eligible for FHA or GSE backing are unable to find an alternative source of financing, any overall impact on home prices is likely to be minor and confined to a very small segment of the housing market.

If we repeat the same analysis looking instead at refinance mortgages issued to owner-occupants in 2009, we find that there too the overall impact of the loan limit reductions is likely to be small. Only about 0.7 percent of all first-lien refinance mortgages issued to owner-occupants in 2009 were conventional or FHA mortgages with a size and location that, as of October 1, are no longer eligible for a GSE guarantee, FHA insurance, or both.

We note, however, that within certain housing markets, especially in California and the Northeast, the FHA and conforming limit changes have the potential to be more disruptive than the national data suggest. In the greater San Jose, California area, about nine percent of all home purchase mortgage originations in 2009 would have been ineligible for FHA and/or GSE backing had the new loan limits been in effect then, the highest share of any major U.S. market. In California's Bay Area and greater San Diego area, about seven and five percent, respectively, of all 2009 home purchase mortgages would have been affected. Many mid-sized metropolitan areas, such as Bridgeport-Stamford-Norwalk, Connecticut, Fresno, California, and Worcester, Massachusetts, also appear to be relatively vulnerable to the loan limit reductions. Appendix III lists the metropolitan areas that had the highest number, and the largest share, of 2009 home purchase loans made up of FHA or conventional mortgages with a loan size and location that were affected by the changes. Of these, a few, like Worcester, are vulnerable solely through the reduction in FHA loans limits, while in most, the relatively high number of 2009 loans in an affected size range is due to a combination of FHA and GSE lending.

Testing the Private Sector's Ability to Expand

For borrowers seeking loans larger than the new GSE conforming limits (which in every case are ineligible for FHA insurance as well), the only option is a private jumbo mortgage. As we just saw, loans with a size and location that lost eligibility as a result of the loan limit reductions make up only a small portion of the total U.S. mortgage market. However, the volume of loans that was being made to these borrowers prior to the loan limit reductions is nonetheless significant compared to the volume of jumbo lending.

Table A shows that in 2009, lenders originated almost $5 billion in FHA-insured loans with a loan size and location that are newly ineligible for both FHA and GSE backing. Many of the borrowers who had chosen an FHA-insured mortgage in this segment did so because they lacked either sufficient cash savings to make a large enough down payment (FHA borrowers currently need to put down only 3.5 percent) or a high enough credit score to meet the underwriting requirements of the GSEs or private mortgage insurers.[8] Few borrowers in this position will be able to qualify for similarly sized loans from the private jumbo market. Most will have to apply for smaller loans to purchase less expensive homes, or, alternatively, delay their purchases and continue renting for at least the time being.[9]

Table A: 2009 Originations of Jumbo Mortgages and Mortgages with Size and Location No Longer Eligible For FHA and GSE Backing*

Mortgage type	*2009 originations*	*Dollars lent*
FHA		
FHA home purchase mortgage originations with loan size that is no longer eligible for FHA or GSE backing	4,059	$2.422 B
FHA refinance mortgage originations with loan size that is no longer eligible for FHA or GSE backing	3,820	$2.250 B
Subtotal for FHA loans with size that is no longer eligible	7,879	$4.672 B
Conventional Conforming		
Conventional home purchase mortgage originations with loan size that is no longer eligible for GSE backing	13,810	$9.028 B
Conventional refinance mortgage originations with loan size that is no longer eligible for GSE backing	27,990	$18.403 B
Subtotal for conventional loans with size that is no longer eligible	41,800	$27.431 B
Jumbo		
Conventional home purchase originations larger than pre- October 1 conforming limit	30,278	$28.581 B
Conventional refinance originations larger than pre- October 1 conforming limit	44,545	$43.029 B
Total estimated jumbo originations	74,823	$71.610 B

**First-lien FHA and conventional mortgages issued to owner-occupants of one- to four-family homes, condominiums and cooperative apartments in metropolitan areas.*

Source: HMDA

8 By law, the GSEs can only guarantee a mortgage with a loan-to-value ratio higher than 80% if it is insured by a private mortgage insurer.

9 Borrowers seeking FHA-backed loans in a size range that lost eligibility generally earn more than 120 percent of their area's median family income and presumably should have little difficulty finding alternative housing options in either the rental market or lower-priced sales market.

In contrast, private lenders will be much more likely fill the gap in conventional lending created by the reduction in GSE eligibility. The borrowers who took out these loans are generally high-income,[10] and, on average, more likely to have sufficient credit scores and assets to make down payments necessary to qualify for alternative financing from the jumbo market. Table A shows that lenders originated about $27 billion in conventional loans with a loan size and location that are newly ineligible for both FHA and GSE backing. These compared to about $72 billion in jumbo lending in 2009.

Table B shows that if the overall mortgage market continues to originate mortgages in the same proportions as it did in 2009, then the jumbo market will need to lend 38 percent more dollars and originate 56 percent more loans to make up for just the portion of the conventional mortgage market that lost GSE-eligibility.[11] If the private sector is to absorb any of the affected FHA market at all, the jumbo market will need to expand even more. To be sure, the market has changed since 2009: price declines and any decreased lending activity since then may mean the dollar volumes of jumbo lending and lending in the size range that is no longer eligible for federal backing are smaller today than they were then. From 2008 to 2009, for example, the dollar volume of jumbo lending dropped by roughly 30 percent. Even so, the instant increase in demand for jumbo loans caused by the policy change is likely to be in the tens of billions of dollars per year and will clearly represent a material change to the market for unsupported private mortgage financing independent of the other year-to-year changes in jumbo lending that result from overall market conditions.[12]

Table B: Comparison of 2009 Volume of Jumbo Mortgages to Mortgages with Size and Location No Longer Eligible For FHA and GSE Backing*

	2009 Originations	*Dollars lent*
Estimated total jumbo originations in 2009	74,823	$71.610 B
Conventional mortgage originations in 2009 with loan sizes that are no longer eligible for GSE or FHA backing in loan location	41,800	$27.431 B
Percentage increase in jumbo lending needed to make up for conventional lending newly ineligible for GSE or FHA backing	56%	38%

**First-lien FHA and conventional mortgages issued to owner-occupants of one- to four-family homes, condominiums and cooperative apartments in metropolitan areas.*

Source: HMDA

10 Based on HMDA data, 73 percent of the borrowers taking out conventional mortgages in 2009 with a loan size and location that lost GSE eligibility on October 1 earned more than twice the median family income in their metropolitan area. Another 25 percent earned between 120 and 200 percent of the median family income in their metropolitan area.

11 If we project from 2008 lending data instead, the jumbo market would need to lend 21 percent more dollars and originate 38 percent more loans. Early analysis of the 2010 data suggests a necessary increase of the same order of magnitude as the 2009 data.

12 Almost all jumbo lending is currently being financed out of lender portfolios. If the number of jumbo loans lenders are currently adding to their portfolios reflects their preferred allocation of finite portfolio space, the percentage increase that would be needed is just as significant as the absolute dollar increase.

How Might the Private Sector Respond and What Might the Response Tell Us?

A broad array of policymakers believe that the government should hand a much larger share of the mortgage market over to the private sector in the coming years, especially as the economy and housing market recover.[13] As a result, Congress will need to weigh proposals to amend or replace HERA and reduce FHA and GSE eligibility even beyond the changes that took effect on October 1. As shown above, these first eligibility reductions will test the ability of the private sector to accommodate a relatively large increase in demand. For this reason, they could provide valuable information about the possible risks to the housing market of future reforms and help policymakers agree on the pace and size of such future reforms.

It is possible that the private sector will not step up to fill the gap in conventional lending that opened on October 1 with a range of loan products (e.g., fixed rate, adjustable rate, 15-year and 30-year terms) that borrowers will find reasonably priced, despite their relatively high incomes. The private sector might, for example, be unwilling to allocate enough portfolio space to mortgage debt or specific types of mortgages to meet this increase in demand at interest rates close to today's jumbo rates.[14] This would be evidence that the GSEs (and FHA) are still serving a broad countercyclical function and that further reductions in FHA and GSE eligibility would likely hamper the recovery of an even wider segment of the housing market. Depending on how Congress weighs the importance of stabilizing home prices versus using the loan limits to reduce the risk to taxpayers, this outcome could suggest that any reform or replacement of HERA that further reduces government support should be deferred until the financial and housing markets are healthier.

However, even if the private sector does respond to the October 1 loan limit reductions by offering a range of reasonably priced mortgage products that fill the gap, that will not necessarily quell concerns about the effects further eligibility reductions might have on home prices. First, as described above, many of the mortgage applicants who will be affected by the reductions have relatively high incomes and, in addition, are geographically concentrated in high-cost, coastal metropolitan areas. In contrast, further reductions in GSE and FHA eligibility would eventually add to the jumbo market more moderately sized loans sought by middle-income applicants in other parts of the country.

13 For instance, the Obama Administration's report to Congress in early 2011 about reforming the housing finance system envisions a system where private markets "will be the primary source of mortgage credit and bear the burden for losses." (see "Reforming American's Housing Finance Market," February 2011, at http://portal.hud.gov/hudportal/documents/huddoc?id=housingfinmarketreform.pdf.

14 Some lenders have publicly indicated their intention to increase portfolio lending following the loan limit decrease. However, in recent testimony to the Senate Committee on Banking, Housing, and Urban Affairs, Subcommittee on Securities, Insurance, and Investment, about the importance of the secondary market, a representative from the Securities Industry and Financial Markets Association asserted that "balance sheet capacity is currently a scarce commodity for most lenders, and is finite in any case." See http://www.sifma.org/workarea/downloadasset.aspx?id=8589934926.

Thus, even if this first group of future borrowers fares well in securing private financing now that the reductions have taken effect, it may still be that the private sector would not offer the variety of products or the underwriting flexibility necessary to adequately serve the many borrowers in the mass market with lower credit scores and fewer assets available to make down payments.

Second, if the expansion in private sector lending occurs primarily through additional portfolio lending, without a revived private label securities market, the ability of bank portfolios to absorb additional demand would continue to loom as a concern.[15] Any constraints on the allocation of more portfolio space to mortgage debt generally, or to any specific types of mortgages (e.g., fixed rate, or mortgages in a certain state or region), would hinder the private sector's ability to meet additional demand at reasonable prices. Persistent dependence on portfolio lending, then, could signal a potential risk to the additional segments of the housing market that would be supported by jumbo lending if FHA and GSE eligibility were reduced further. Alternatively, if the private label securities market does reemerge to finance an expansion of jumbo lending, this would suggest that private lending could more easily be scaled up to meet additional demand.

Of course, other factors in addition to the loan limit reductions may significantly add or lessen pressure on the jumbo mortgage market in the coming months and years. Most significantly, any significant increase in home sales volume over the next few years, even if not accompanied by increases in home prices, could rapidly expand the demand for jumbo mortgages beyond current levels and magnify the implications of further loan limit reductions. On the other hand, so long as HERA is in force, any sustained price declines would tend to shrink the share of the housing market that relies on jumbo mortgages. HERA provides that loan limits can only adjust upward in response to national home price changes, not downward. Sorting out the effects of these factors from those of the loan limit reductions will not be easy. It will be critical, however, to the evaluation of how well the private housing finance system will be able to absorb additional market share from the GSEs and FHA if Congress chooses to replace or amend HERA and enact additional pullbacks of GSE and FHA eligibility.

15 Much of the expansion in jumbo lending would result in a net addition of mortgages to lender portfolios, because it would create new debt (e.g., first time homebuyers) or would refinance mortgages that are currently held in GSE-backed or private, subprime securitization pools. However, some additional demand for jumbo mortgages will be for loans that refinance or otherwise prepay existing mortgages already in loan portfolios (e.g., large loans made before the loan limits were increased) and would not, then, have a significant net impact on aggregate portfolio allocation.

Conclusion

Disentangling the federal government from the nation's mortgage finance system has emerged as an important political and policy issue. The October 1 GSE and FHA loan limit changes appear to be only a modest first step in this direction because, at most, they will shift only a small piece of the overall market to the private sector. Nevertheless, 2009 mortgage origination data suggest that this shift will generate a large relative increase in demand for purely private mortgages, testing the private sector's ability to serve a significantly wider market and making its response worth watching closely. If private lenders do not respond by offering loan products at reasonable prices to fill the gap left by the GSEs, policymakers should strongly consider waiting for signs of greater housing and mortgage market stability before further reducing government support of lending. Even if the private market is able to fill this gap, this may not signal that further pullbacks of federal support would be relatively harmless to the housing market. If the expansion of jumbo lending is financed mainly by bank portfolios, constraints on portfolio allocation could restrict further availability and raise the costs of private loans if demand were to increase. However, if private lenders finance their increased jumbo lending through the reemergence of the private label securities market, policymakers could have greater confidence that additional segments of the mortgage market can be shifted to the private sector without harming the housing market.

Notes and Methodology

Mortgage origination data reported in this document are based on records lenders report to federal regulators under the Home Mortgage Disclosure Act (HMDA), which the Federal Financial Institutions Examination Council makes public. The most recent data at the time of our analysis reported on loans originated in 2009. HMDA data cover the vast majority of all mortgages originated across the country, particularly within metropolitan areas.

All figures in our analysis are based on first-lien, one- to four-family, non-business-related home purchase loans originated in metropolitan areas. We excluded from our analysis any loans for properties that the loan applicant did not report as their principal dwelling (or intended principal dwelling), any loans for manufactured or multifamily housing (five or more units), and any loans deemed to be business-related (classified as those loans for which a lender reports an applicant's ethnicity, race and sex all as "not applicable"). We also exclude all loans made outside of metropolitan areas, which accounted for about 10 percent of all home purchase mortgages reported in HMDA in 2009.

The recently expired loan limits did not go into effect until late February 2009, so the aggregate loan origination data we report for 2009 includes loans originated for an almost two month period in which the loan limits were lower. Because we overlay the recently expired loan limits, which were in effect for the remainder of 2009, we misclassify some loans that were in fact jumbo (i.e., non-conforming) loans originated near the beginning of the year as loans that were in a loan size range that was affected by the October 2011 changes.

Two- to four-family homes are eligible for higher FHA and GSE loan limits than single family homes, condominiums and cooperative apartments. Although HMDA data do not specify whether a mortgage is secured by a single-family home versus a two- to four-family home, based on American Housing Survey data, we estimate that two- to four-family homes make up only about 1.1 percent of all owner-occupied properties across the country.

When analyzing the 2009 HMDA data, we observe high frequencies of originations with loan sizes just above the applicable GSE and FHA loan limits, which may be the result of rounding and minor reporting errors. To ensure we correctly classify loans, we add $3,000 to all loan limits when determining if a 2009 loan was higher or lower than a specific loan limit (e.g., when calculating the data reported in Tables A and B and Appendixes II and III).

Because of price declines since 2009, some of the homes that would have required a mortgage in affected loan ranges may now be purchasable with a smaller loan that will remain eligible for FHA insurance or GSE guarantee. However, price drops will also bring loans that would have been jumbo mortgages in 2009 into the size range that will be affected by the loan limit changes, so it is not clear how much price declines alone may reduce the number of potentially impacted loans. Furthermore, because an income-restricted first time homebuyer tax credit was available in 2009 but has since expired, the distribution of home purchase mortgage originations was likely skewed lower that year than is the case today.

As was the case before the loan limit changes, a small number of borrowers are able use GSE-backed loans to borrow a total amount that exceeds the conforming limit by originating two smaller loans (a first and second mortgage) at the same time. However, such an arrangement generally carries higher fees and interest rates than taking out a single loan and may be subject to stricter underwriting.

For our analysis we use the new loan limits published by FHA at http://portal.hud.gov/hudportal/documents/huddoc?id=fhaloanlmhera.pdf (Oct. 2011) and the recently expired loan limits published by FHA at http://www.hud.gov/pub/chums/file_layouts.html.

Additional information and analysis concerning the loan limit changes is available at:

U.S Department of Housing and Urban Development, Office of Housing / Risk Management and Regulatory Affairs / Evaluation. *Potential Changes to FHA Single-Family Loan Limits beginning October 1, 2011 from Implementation of the Housing and Economic Recovery Act of 2008 A Market Analysis Brief*. May 26, 2011. Available at: http://portal.hud.gov/hudportal/documents/huddoc?id=fhaloanlmhera.pdf

Federal Housing Finance Agency. *Possible Declines in Conforming Loan Limits*. Mortgage Market Note 11-01. May 26, 2011 (revised). Available at: http://www.fhfa.gov/webfiles/20671/MMNote_2011-01_LoanLimit.pdf

APPENDIX I: Additional Information about Recent Loan Limits Increases

In 2007 and the beginning of 2008, the maximum loan size eligible for Fannie Mae and Freddie Mac guarantees (the conforming limit) was $417,000 throughout the country. The FHA limit was equal to 95 percent of a metropolitan area's median house price (as estimated by the Department of Housing and Urban Development), but could be no lower than $200,160 (the "floor") and no higher than $362,790 (the "ceiling"), regardless of an area's median home price. Most markets had an FHA limit equal to the floor.

The chronology of legislative changes increasing the limits is as follows:

- The Economic Stimulus Act of 2008 (ESA) set the conforming limit and FHA limit to 125 percent of a metropolitan area's 2007 median house price, with an FHA floor of $271,050 and a conforming limit floor of $417,000, and a ceiling for both FHA and conforming limits equal to $729,750. The limits under ESA applied from March 6, 2008 through the end of 2008.

- The Housing and Economic Recovery Act of 2008 (HERA) outlined a new formula for determining the limits applicable from January 1, 2009: the conforming limit and FHA limit were set to 115 percent of a metropolitan area's prior-year median house price, with an FHA floor of $271,050 and a conforming limit floor of $417,000 and a ceiling for both FHA and conforming limits equal to $625,500. The floors and ceiling are to be adjusted annually based on a nationwide house price index, but can only be increased.

- The American Recovery and Reinvestment Act of 2009 (ARRA) temporarily set the limit for each metropolitan area as the higher of the limit under ESA or HERA. ARRA began to apply in February, 2009 and, after two extensions, expired at the end of September of this year.

As a result of these changes, the recently expired loan limits (in effect until October 1, 2011) for single-family homes, condominiums and cooperative apartments were effectively determined by the formula specified in ESA.

On October 1, 2011, the temporary rules for determining the limits established under ARRA expired and the rules under HERA once gain apply. Effectively, the conforming and FHA limits for single-family homes, condominiums and cooperative apartments equal 115 percent of a metropolitan area's 2008 HUD-determined median home price, with a ceiling of only $625,500. The conforming and FHA limit floors remain unchanged, at $417,000 and $271,050, respectively. In future years, the limits will increase to the extent local and national home prices appreciate above 2008 levels.

The metropolitan areas in Figure 1 (on page 4) illustrate several typologies of the October 1 loan limit changes. In the first two, the GSE and conforming limits dropped by the same amount as one another, effectively removing all widely available government-backed lending from the affected loan size ranges. In New York City, the limits were at the ceiling both before and after the change, while in Salinas, California, the limits dropped below the lowered ceiling as a result of area house price declines. In Stockton, California, the FHA and GSE limits both declined, but because the GSE floor is higher than the FHA floor, the FHA limits fell further. As a result, some of the affected loan size range lost both FHA and GSE eligibility while another portion lost FHA, but retained GSE eligibility. In the Las Vegas area, the FHA limit decreased, but the entire affected range retained GSE eligibility. Finally, in many metropolitan areas, including Bangor, Maine, neither the FHA nor the conforming limits changed.

APPENDIX II

2009 Home Purchase Mortgage Originations* with Loan Size and Location Affected by October 1 Loan Limit Reductions

Mortgage Type	*2009 originations*	*Share of all 2009 home purchase originations*	*2009 dollars lent*	*Share of all 2009 home purchase dollars lent*
Conventional home purchase mortgage originations with loan size that is no longer eligible for GSE backing	13,810	0.7%	$9.028 B	2.0%
FHA home purchase mortgage originations with loan size that is no longer eligible for FHA or GSE backing	4,059	0.2%	$2.422 B	0.5%
FHA home purchase mortgage originations with loan size that is no longer eligible for FHA backing (but which is still eligible for GSE backing)	12,874	0.6%	$4.253 B	1.0%
Total	30,743	1.5%	$15.703 B	3.6%**

**First-lien home purchase mortgages issued to owner-occupants of one- to four-family homes, condominiums and cooperative apartments in metropolitan areas.*

***Does not sum exactly due to rounding.*

APPENDIX III

Metropolitan Areas* with Highest Shares of 2009 Mortgages with Loan Size that Is No Longer Eligible for FHA or GSE Backing**

	Metropolitan area	*2009 FHA home purchase originations with size that is no longer FHA-eligible*	*2009 conventional home purchase originations with size that is no longer GSE-eligible*	*Total*	*Share of all 2009 home purchase mortgage originations with size that lost FHA or GSE backing*
1	San Jose-Sunnyvale-Santa Clara, CA	162	1,115	1,277	8.9%
2	San Francisco-Oakland-Fremont, CA	384	2,131	2,515	7.3%
3	Bridgeport-Stamford-Norwalk, CT	52	353	405	6.5%
4	San Diego-Carlsbad-San Marcos, CA	345	924	1,269	5.0%
5	Fresno, CA	354	N/A	354	4.9%
6	Oxnard-Thousand Oaks-Ventura, CA	89	193	282	4.5%
7	Stockton, CA	333	21	354	4.5%
8	Los Angeles-Long Beach-Santa Ana, CA	603	2,288	2,891	3.9%
9	Boston-Cambridge-Quincy, MA	242	1,081	1,323	3.5%
10	Worcester, MA	217	N/A	217	3.4%

Metropolitan Areas with Highest Numbers of 2009 Home Purchase Mortgage Originations with Loan Size that Is No Longer Eligible for FHA or GSE Backing*

	Metropolitan area	*2009 FHA home purchase originations with size that is no longer FHA-eligible*	*2009 conventional home purchase originations with size that is no longer GSE-eligible*	*Total*	*Share of all 2009 home purchase mortgage originations with size that lost FHA or GSE backing*
1	Los Angeles-Long Beach-Santa Ana, CA	603	2,288	2,891	3.9%
2	San Francisco-Oakland-Fremont, CA	384	2,131	2,515	7.3%
3	New York-Northern New Jersey-Long Island, NY-NJ-PA	277	2,057	2,334	2.5%
4	Washington-Arlington-Alexandria, DC-VA-MD-WV	485	1,270	1,755	2.7%
5	Riverside-San Bernardino-Ontario, CA	1,145	197	1,342	2.8%
6	Phoenix-Mesa-Scottsdale, AZ	1,332	N/A	1,332	2.6%
7	Boston-Cambridge-Quincy, MA-NH	242	1,081	1,323	3.5%
8	San Jose-Sunnyvale-Santa Clara, CA	162	1,115	1,277	8.9%
9	San Diego-Carlsbad-San Marcos, CA	345	924	1,269	5.0%
10	Seattle-Tacoma-Bellevue, WA	238	805	1,043	3.3%

**Metropolitan areas with at least 5,000 total home purchase originations in 2009.*

***First-lien home purchase mortgages issued to owner-occupants of one- to four-family homes, condominiums and cooperative apartments in metropolitan areas*