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NEWS RELEASE

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OFHEO ESTABLISHES PROCEDURES FOR 2007 CONFORMING LOAN LIMIT

Washington, DC – Office of Federal Housing Enterprise Oversight Director James B. Lockhart today announced procedures to be followed in determining Fannie Mae's and Freddie Mac's conforming loan limits for 2007 in the event of a decrease in house prices. The conforming loan limit determines the maximum size of a mortgage that an Enterprise can buy or guarantee. The 2006 limit for single-family houses in most of the U.S. is \$417,000.

Through a [guidance](#) issued Feb. 20, 2004, OFHEO assumed responsibility for calculating the maximum conforming loan limit. OFHEO uses the October-to-October percentage increase in the average house price in the Monthly Interest Rate Survey of the Federal Housing Finance Board (FHFB) to adjust the maximum limits for the subsequent year.

Gaps in the law and differing practices in the past have led to uncertainty about how the limits will be computed if the FHFB's October average price is lower than it was the previous October. Such a decline in price appears likely this year as the September number showed a 3.1 percent decrease. The FHFB's October 2006 data will not be published until Nov. 28, 2006, but households and lenders are making decisions today that may be affected by the limits put in place next January.

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"If house prices fall, loan limits should reflect that, but we need to ensure an orderly and transparent process for any downward adjustment," said Lockhart. "We want to make sure that guidance exists to avoid disrupting the end-of-the-year pipeline of mortgages or the market for mortgage-backed securities."

Accordingly, OFHEO has decided to clarify now how any October-to-October price change would affect maximum loan limits:

1. If the average October 2006 price exceeds that of October 2005, the maximum conforming limits will be adjusted upward by the percentage increase in price.
2. If the October-to-October increase is negative, its effect on the maximum conforming limits will be deferred for one year. Thus, if the October 2006 average price is less than that of October 2005, the maximum 2007 loan limits will be unchanged from current levels. This year's decrease would be netted against any increase next year in determining the 2008 limits. If a decrease in average price this year is followed by another decrease next year, the maximum loan limits will decline in 2008 by at least this year's percentage decrease in average prices.

OFHEO will provide more detailed guidance early next year for 2008 and future years. In particular, OFHEO intends to clarify that mortgages previously purchased or guaranteed, or subject to purchase in the event of default, by an Enterprise will not be affected by any future reductions in conforming loan limits. Additionally, OFHEO will evaluate whether any other issues exist that would benefit from additional procedural rules in assuring an orderly setting of loan limits.

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OFHEO's mission is to promote housing and a strong national housing finance system by ensuring the safety and soundness of Fannie Mae and Freddie Mac.