United States General Accounting Office

GAO

Report to the Ranking Minority Member, Committee on Banking and Financial Services, House of Representatives

March 1999

# FHA LOAN LIMITS

# Finance Board Data Are a Reasonable Source of Home Sales Prices

GAO

**United States**
**General Accounting Office**
**Washington, D.C. 20548**

**Resources, Community, and**
**Economic Development Division**

B-281434

March 29, 1999

The Honorable John J. LaFalce
Ranking Minority Member
Committee on Banking
and Financial Services
House of Representatives

Dear Mr. LaFalce:

Purchasing a home is one of the most significant financial undertakings for most families. For many of those seeking to do so for the first time, the Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) often helps make home ownership possible. FHA does this by insuring mortgages so that lenders will make loans to borrowers who might be unable to otherwise get a mortgage. FHA also sets limits on the dollar value of individual loans it will insure. The maximum FHA-insured mortgage a borrower may obtain varies throughout the country depending on local housing prices, resulting in hundreds of different loan limits. To measure local house prices and determine these loan limits, FHA largely relies on data from a Federal Housing Finance Board (Finance Board) survey that collects house purchase prices and other related data on non-government-insured mortgages from mortgage lenders.

Because the FHA loan limits for some areas seemed high, you asked us to collect and analyze data about house prices from sources other than the Finance Board. This report (1) compares data on house prices from the Finance Board with data HUD's Office of Federal Housing Enterprise Oversight collects to measure house price changes;[1] (2) presents the views of officials of the agencies involved on the results of this analysis; (3) analyzes the effect on median prices of supplementing the Finance Board's and the Office of Federal Housing Enterprise Oversight's data with information each does not already include on lower-priced homes with government-insured mortgages; and (4) provides information on FHA's

[1]Neither of these sources collects information on purchase prices for all home loans or all home sales. The Federal Housing Finance Board collects home price data for mortgages that are not insured by the federal government and that are not for the purpose of refinancing an existing loan. The Office of Federal Housing Enterprise Oversight collects data on loans—few of which are government-insured and none of which may exceed a statutory limit—purchased by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). While the Finance Board publishes data on house prices as well as price changes, the Office of Federal Housing Enterprise Oversight publishes only data on house price changes, not the house price data it provided us for the analysis in this report. Both Fannie Mae and Freddie Mac consider these data on house prices proprietary and confidential.

recent efforts to explore alternative sources of data for measuring median home prices. The data we analyzed cover 42 selected metropolitan areas for which the Finance Board publicly reports data annually (see app. I for a list of these areas).

## Results in Brief

The Finance Board and the Office of Federal Housing Enterprise Oversight's estimates of 1997 median home sales prices were similar in about two-thirds of the metropolitan areas we reviewed. That is, in 27 of the 42 areas, the two agencies' estimates were within 5 percent of each other. Therefore, loan limits based on either set of data would be similar in these areas. For the remaining 15 areas we reviewed, the Finance Board estimated a higher median home sales price in 10 of the areas, while the Office of Federal Housing Enterprise Oversight's estimate was higher in 5 areas.

Officials familiar with these data, including officials from the Finance Board as well as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), cited the low number of substantive differences in our analysis as an indicator of the validity of the Finance Board's data. Because no substantive difference existed between the two sets of data in about two-thirds of the areas we reviewed, the officials indicated the Finance Board's data are a reasonable measure of an area's median sales price for homes without government-insured financing. In those areas for which substantive differences did exist, officials from the different agencies involved agreed the reason was that the Finance Board includes larger loans, and thus higher home purchase prices, in its survey than does the Office of Federal Housing Enterprise Oversight. The Finance Board's 1997 data include loan amounts up to $500,000 and house purchase prices up to $750,000. The Office of Federal Housing Enterprise Oversight's data for 1997 include no loans greater than $214,600. These officials also cited normal variations associated with surveys and statistical sampling as a reason for some differences between the two sets of data.

Supplementing the data from either the Finance Board or the Office of Federal Housing Enterprise Oversight with data on homes financed with government-insured loans would lower the estimated median home sales price in any given area by 2 to 31 percent. This is true because neither the Finance Board's nor the Office of Federal Housing Enterprise Oversight's data include homes financed with government-insured loans. The purchase prices of homes financed with mortgages insured by FHA and the

Department of Veterans Affairs[2] are, on average, lower than those of homes bought with privately insured financing. These lower prices result from the limits on the size of individual loans FHA may insure and because government-insured financing tends to be focused on first-time homebuyers, who typically purchase less expensive homes.

FHA is engaged in an effort to use additional sources of data, such as the Office of Federal Housing Enterprise Oversight, to improve its measurement of median home sales prices. In part, this is due to recent legislative changes that make it necessary for FHA to know the median price for each county within a metropolitan area as well as for the entire area when setting loan limits.[3] Currently, FHA relies heavily on the Finance Board's survey for the data it needs to set its loan limits, but to a limited extent it has also supplemented that survey with data its field offices gather on local home sales prices. In addition to exploring the use of the Office of Federal Housing Enterprise Oversight's data, FHA is considering using data on loans that neither Fannie Mae nor Freddie Mac has purchased.

## Background

One of FHA's primary goals is to assist those households that are unable to meet the requirements of the private market for mortgages and mortgage insurance or that live in underserved areas where mortgages may be harder to obtain. In doing so, FHA applies more flexible underwriting standards than the private market generally allows. Borrowers seeking FHA-insured loans may make smaller down payments (as a percentage of the purchase price) than the private market requires and may also include in the amount they borrow most costs associated with closing the loan, rather than using cash for those expenses, as private lenders generally require. FHA is required by statute to set limits on the dollar amount of individual loans it will insure. These limits are based, in part, on local median home prices.

The Finance Board surveys major mortgage lenders each month, collecting information on the terms and conditions (including the sales prices of homes) of conventional single-family home loans closed during

[2]Although the Department of Veterans Affairs guarantees mortgages for U.S. veterans and their families rather than insuring them, this report refers to these loans as government-insured.

[3]P.L. 105-276 sec. 228(b) mandates that the highest loan limit of any county within a metropolitan statistical area must apply to loans insured in all the counties in that area.

the last 5 business days of the month.[4] The Finance Board may not require that lenders participate in its survey. Those doing so participate voluntarily. Fannie Mae and Freddie Mac, both government-sponsored enterprises, are parts of the secondary mortgage market, through which many single-family home mortgages are ultimately sold.[5] Federal law requires that Fannie Mae and Freddie Mac use information from the Finance Board's survey on the year-to-year change in house prices to annually adjust the conforming loan limit (currently $240,000), which is a legislative restriction on the size of any individual loan that either may buy.[6]

FHA also uses information from the Finance Board to set limits on the dollar value of loans it will insure, which are based on the conforming loan limit and median home prices. That is, FHA sets an area's loan limit at the greater of 48 percent of the conforming loan limit or 95 percent of the median home sales price for the area, but no greater than 87 percent of the conforming loan limit.[7] Consequently, FHA loan limits vary depending on the location of the home and the median home sales price there but are no lower than $115,200 and no higher than $208,800—48 percent and 87 percent, respectively, of the conforming loan limit.

FHA is not required by statute to use a particular source of information on home prices to determine the median price of homes in an area and, consequently, the loan limit for the area. However, FHA has chosen to use the Finance Board survey for this purpose. FHA relies heavily on the survey to measure median home sales prices because it is the most comprehensive source of published house price data readily available to the agency.

The Office of Federal Housing Enterprise Oversight (OFHEO) also collects information on home sales. Specifically, both Fannie Mae and Freddie Mac

[4]Conventional loans are all home loans not insured or guaranteed by the government. The survey also excludes refinancings.

[5]The Congress created the enterprises to enhance the availability of credit to qualified borrowers by purchasing mortgages from lenders, who can then use the proceeds from those sales to make additional mortgage loans.

[6]12 U.S.C. 1717(b)(2) and 12 U.S.C. 1454(a)(2). Loans greater than the conforming loan limit are called jumbo loans.

[7]Alaska, Hawaii, Guam, and the Virgin Islands may have even higher loan limits because the Congress has designated these states and territories as special high-cost areas, allowing FHA to set its loan limits there up to 50 percent higher than the limits applicable elsewhere. Also, FHA permits its field offices to use non-Finance Board data to adjust loan limits. Any interested party who does not believe that the FHA loan limit for a given area accurately reflects the median house prices there may appeal for an increase. Anyone doing so must submit to FHA sufficient house sales price data to justify granting an increase.

provide data to OFHEO on all of the mortgages they purchase in order for OFHEO to construct a house price index.[8] OFHEO uses the house price index to account for changes in the values of the homes securing the mortgages that the enterprises have purchased and their potential impact on credit risk. By definition, the index includes only conforming loans—those with values less than the conforming loan limit—because neither enterprise may purchase loans that exceed the conforming loan limit. In addition, the index excludes all government-insured loans.[9] In 1997, Fannie Mae and Freddie Mac purchased 37 percent of all conventional loans originated that year for single-family homes.

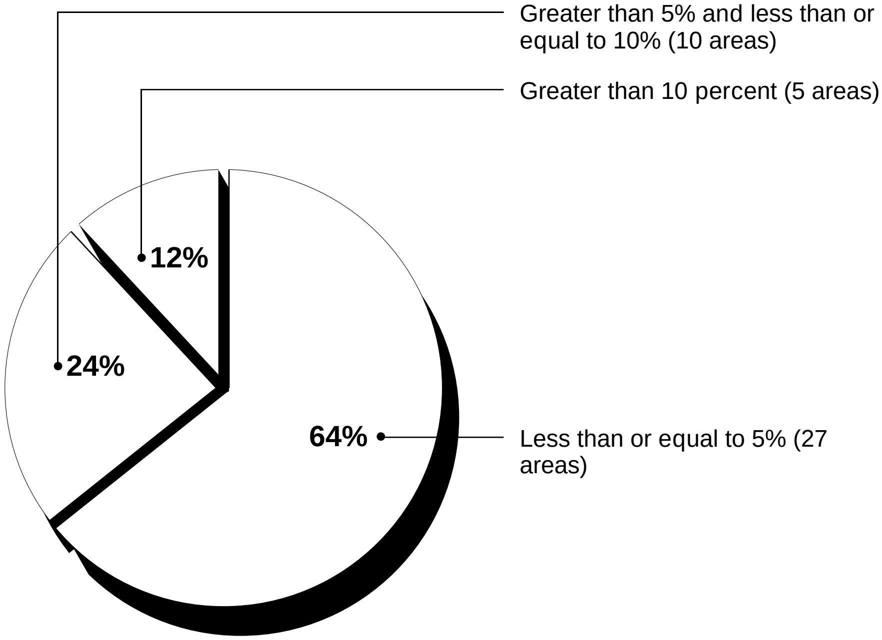
## The Finance Board and the Office of Federal Housing Enterprise Oversight Usually Estimate Similar Median Prices

In about two-thirds of the 42 metropolitan areas we reviewed, no substantive difference existed in the 1997 median house prices calculated with Finance Board and OFHEO data. As figure 1 shows, in 27 of these areas, the difference between the higher and lower estimates of median prices according to the two sets of data was 5 percent or less. In an additional 10 areas, the two agencies' estimates were within 10 percent of each other. For the 15 areas where the two estimates differed by more than 5 percent, the Finance Board estimated a higher median home sales price than OFHEO in 10 areas, while OFHEO estimated a higher median in 5 areas.

[8]The house price index measures changes in home values over time, using the home's appraised value from a refinancing and either the home's appraised value or sales price from purchases. OFHEO estimates a value for each home with a repeat transaction and compares that to the home's previous sales price or appraised value, with any difference between the two becoming the basis for the index. Although OFHEO publishes the index, it does not publish the data that Fannie Mae and Freddie Mac provide it that form the basis for the index. Fannie Mae and Freddie Mac consider those data to be proprietary and confidential.

[9]Fannie Mae and Freddie Mac can and do purchase government-insured loans, but they buy very few, and OFHEO screens these out of its house price index as well as the data it provided us. The Government National Mortgage Association (Ginnie Mae) securitizes nearly all government-insured mortgages, guaranteeing the timely payment of principal and interest on privately issued securities that are backed by pools of government-insured mortgages.

Figure 1: Degree of Difference Between 1997 Median House Prices in 42 Metropolitan Areas Using the Finance Board's and OFHEO's Data




Sources: GAO's analysis based on median house price data from the Federal Housing Finance Board and the Office of Federal Housing Enterprise Oversight.

Because one basis for measuring the median price—the Finance Board's data—does not result in a substantively different price than another—OFHEO's data—for about two-thirds of the areas we reviewed, FHA loan limits in those areas would be similar using either source of data. The median price determines whether FHA sets its loan limit at a percentage of the conforming limit or at 95 percent of the median home price.

## Officials See Data Sources as Mutually Supportive, With Differences Largely Due to Jumbo Loans

The Finance Board's data were a reasonable measure of an area's median home sales price (for homes with conventional financing), according to officials at the Finance Board, Fannie Mae, and Freddie Mac. As support for this position, they cited the similarity in the median prices that the Finance Board and OFHEO calculated in about two-thirds of the areas we reviewed. Given the differences in the nature of the data the Finance Board collects through a survey of lenders versus OFHEO's data, which represent all the conforming loans Fannie Mae and Freddie Mac purchased, these officials stated that they viewed each data set as supportive of the other. Regardless of the similarities and differences in the median home prices derived from these two sources, the different methods by which the Finance Board and OFHEO collect home price data could explain some variation between them. For example, while the Finance Board survey is intended to estimate house prices at the national level, estimates at the local level are likely to be less representative of all non-government-insured home sales for that area. These officials added that there would be even fewer differences between the two if we analyzed trends in median price data over a number of years.

The Finance Board's survey included some higher-priced homes that would not be reflected in OFHEO's data, sometimes resulting in a higher calculated median price than OFHEO's data reflected. In fact, in 26 of the areas we reviewed, the Finance Board data showed higher median home sales prices than did the OFHEO data. According to officials from Fannie Mae and Freddie Mac, including these jumbo loans is the primary reason for that difference. Specifically, the Finance Board's data included purchase prices up to $750,000 and loan amounts up to $500,000.[10] Conversely, OFHEO's data excluded all jumbo loans because they exceed the conforming loan limit ($214,600 in 1997), meaning neither Fannie Mae nor Freddie Mac could have purchased them.

## Median House Prices Are Lower When They Are Based on Conventional and Government-Insured Loans

Supplementing the Finance Board's or OFHEO's data with information on prices of homes financed with government-insured mortgages reduces the estimates of median prices across the board and within all of the metropolitan areas we reviewed. Homes financed with government-insured mortgages typically cost less than homes financed with conventional mortgages, but the Finance Board and OFHEO (with few exceptions) collect data only on homes financed with conventional mortgages. Hence, including data on government-insured mortgages in the calculation for a given area results in a lower median price of homes.

As table 1 shows, the effect of adding data on homes with government-insured mortgages to the Finance Board's and OFHEO's median price estimates is not uniform across all of the metropolitan areas; that is, it does not reduce the median in each area by the same amount. When we added data on homes with government-insured loans to the Finance

[10]The Finance Board excludes purchase prices and loan amounts above these thresholds to control for possible data entry errors on the part of the lenders participating in its survey. In 1998, the Finance Board raised these thresholds to $856,000 for purchase prices and $571,000 for loan amounts.

Board's data, median prices in individual metropolitan areas were 2 to 30 percent lower. When we added these data to OFHEO's data, median prices were 6 to 31 percent lower.

**Table 1: Effect of Adding Data on Government-Insured Loans to Finance Board and OFHEO Median House Price Data in 42 Metropolitan Areas**

| Percentage drop in estimated median house price when government-insured loans are added | Number of areas | |
|---|---|---|
| | Median based on Finance Board data and government-insured loans[a] | Median based on OFHEO data and government-insured loans |
| 5 percent or less | 5 | 0 |
| 6 to 10 percent | 12 | 1 |
| 11 to 15 percent | 12 | 16 |
| 16 to 20 percent | 7 | 16 |
| More than 20 percent | 3 | 9 |

[a]Finance Board data were not available for this analysis in three metropolitan areas.

Sources: GAO analysis based on data from the Federal Housing Finance Board, the Office of Federal Housing Enterprise Oversight, FHA, and the Department of Veterans Affairs.

The effect that including government-insured loans has on the estimated median price of homes in any given area depends on how much government-insured lending (relative to all other types of lending) was taking place in that area. Where government-insured lending was a relatively higher percentage of home loans, median prices decreased by a greater degree than the decrease for the 42 areas taken as a whole. Conversely, where there was relatively less government-insured lending in any given area, median prices also decreased—but to a lesser degree than in metropolitan areas with more government-insured lending.

## FHA Plans to Use Additional Data Sources, Including OFHEO, to Improve Its Measurement of Median Home Sales Prices

FHA is exploring additional data sources to supplement the Finance Board's data and to improve its own measurement of median house prices. In part, this is in recognition of the importance and value of timely and comprehensive data on house prices at the local level for its own purposes as well as larger, research-oriented uses. Also, recent legislative changes have made it more important for FHA to have accurate local-area measures of house prices on which to base loan limits. However, FHA has found no source that systematically collects house price data on an ongoing basis in all of the areas—metropolitan areas and counties—for which FHA must set loan limits. As a result, FHA has stepped up its efforts to determine the availability of, and any limitations associated with, additional data sources on home prices.

FHA's most pressing reason for developing additional data sources is a provision in recent legislation mandating that the highest loan limit of any county within a metropolitan area must apply to loans insured in all the counties in that area. To implement this provision as part of a recent comprehensive update of all FHA loan limits, FHA supplemented its primary data source, the Finance Board survey, with data from the National Association of Realtors and a private marketing firm that collects and sells data from real estate transaction records. To a limited extent, FHA also had its field staff work with local interested parties, such as realtors' associations, to gather sufficient recent data on which to base an estimate of an area's median house price. Nonetheless, FHA officials told us that for over half of those areas whose loan limits were not automatically indexed to the conforming loan limit, the Finance Board's survey was their primary source of median house price data.[11]

FHA's goal is to comprehensively update all of its loan limits annually and, in doing so, to make use of additional data sources to broaden the extent to which its estimates of median house prices cover more of the housing market. To do so, FHA recently initiated preliminary discussions with OFHEO about making use of its data (similar to the data OFHEO provided to us) in its next comprehensive update. In addition, FHA is considering obtaining data on jumbo loans as well as other loans that Fannie Mae and Freddie Mac have not purchased. FHA has no specific timetable for including such data, in large part because the sources of the data on some of these loans do not include information on house sales prices, which makes using the data much more methodologically complex and time-consuming than using a database such as OFHEO's.

## Observations

FHA has substantial discretion in choosing the source of median house price data it will use to set loan limits because, unlike the conforming loan limit, there is no statutory requirement for it to use a specific data source. Lacking a nationwide source of data that systematically collects comprehensive house price information in each and every area where FHA must set loan limits, the agency is left with the challenge of assembling the best data available to it. At present, its use of the Finance Board's survey appears reasonable given that the only more comprehensive source of

[11]For the recent comprehensive update, FHA used the Finance Board as its data source for 30 of the 42 areas discussed in this report; for 6 areas, FHA used data its field office staff gathered on local real estate sales; and, in the remaining 6 areas, field office staff determined that one county in the area had a higher loan limit than the others and invoked the recently enacted provisions applying that county's higher limit to the entire area.

data that we found—HUD's Office of Federal Housing Enterprise Oversight—usually yielded a similar median price.

Nonetheless, while both the Finance Board and OFHEO offer measures of median prices that capture one particular segment of the housing market—homes with conventional financing—neither covers all of the housing market. As a result, FHA's efforts to broaden its coverage of the housing market will be guided by a need to identify what its data sources are not capturing and a need to consider the implications for its loan limits and potential FHA borrowers of using any new data sources.

## Agency Comments

We provided a draft of this report to the Department of Housing and Urban Development (HUD), the Federal Housing Finance Board (the Finance Board), the Office of Federal Housing Enterprise Oversight, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation for their review and comment.

HUD agreed that the Finance Board's survey is a reasonable source of home sales price data even though neither the survey nor the Office of Federal Housing Enterprise Oversight's information on home sales covers the entire housing market. HUD commented that the report effectively describes the practices and resources it used to set FHA loan limits and identifies the data collection obstacles associated with this activity. HUD also provided technical corrections to the report, which we have incorporated. HUD's comments are included as appendix II of this report.

The Finance Board agreed that our analysis indicates its survey is a reasonable measure of 1997 home sales prices in the areas we reviewed. However, the Finance Board also commented that because its data come from a voluntary sample of mortgage lenders, it cannot ensure that its sample size in individual metropolitan areas or counties is large enough to provide statistically reliable results. The Finance Board stated that if the Congress wants HUD to use the survey, it should provide the Finance Board with the authority to require lenders to participate in the survey. We have reported in the past that users of the Finance Board's data suggested the sample size would need to be expanded to make the data more reliable for measuring local housing prices.[12] We have revised our description of the Finance Board's survey to clarify that lenders participate in it voluntarily. The Finance Board's comments are included as appendix III of this report.

[12] Housing Finance: Implications of Alternative Methods of Adjusting the Conforming Loan Limit (GAO/RCED-95-6, Oct. 5, 1994).

The Office of Federal Housing Enterprise Oversight provided technical corrections and clarifications to the report, which we have incorporated as appropriate.

The Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation also commented on the draft report. Both stated that they consider the data they provide the Office of Federal Housing Enterprise Oversight to be proprietary and confidential. We agreed to add this information to the report. The Federal Home Loan Mortgage Corporation also provided technical corrections to the report, which we have incorporated as appropriate.

## Scope and Methodology

Our review covered homes sold in selected metropolitan areas in calendar year 1997 (1) for which FHA insured or the Department of Veterans Affairs guaranteed the mortgages on the homes; (2) about which the lenders issuing the mortgages for the homes reported data on the loans in the Federal Housing Finance Board's monthly interest rate survey; or (3) that had mortgages that Fannie Mae or Freddie Mac subsequently purchased, reporting data on those loans to OFHEO.[13] For this analysis, we focused on the 42 metropolitan statistical areas (MSA) for which the Finance Board publicly reports data annually.[14] By definition, MSAs have at least one city with 50,000 inhabitants or are urbanized areas with a total metropolitan population of at least 100,000. Most MSAs consist of more than one county.

For the 42 areas, we obtained (1) from FHA and the Department of Veterans Affairs, data on the median price of all of the homes sold for which the federal government insured or guaranteed the mortgages[15] and (2) from the Finance Board, the median purchase price of all the homes sold whose mortgages were reflected in the Board's monthly interest rate survey. Using data on loan amounts and loan-to-value ratios, OFHEO calculated and provided to us an estimate of the median price of all homes sold in these areas that had mortgages that were subsequently purchased by Fannie

[13]See appendix I for a complete list of these 42 areas.

[14]The Finance Board also reports data on 18 consolidated metropolitan statistical areas (CMSA), which are MSAs that have a population of 1 million or more, separate component areas that are identifiable and meet certain standards for designation as a metropolitan area, and local support for the component areas. Because the Finance Board and OFHEO were more readily able to provide data arrayed by MSA (rather than also disaggregating each CMSA's data into the component MSAs), we focused our analysis on just the 42 MSAs.

[15]In 1997, the Department of Agriculture's Rural Housing Service guaranteed $2.4 billion in rural housing loans made by private lenders. However, because these loans are a relatively small part of the mortgage market and are concentrated in rural—as opposed to metropolitan areas—we have excluded them from our analysis.

Mae or Freddie Mac. For this calculation, OFHEO used the data Fannie Mae and Freddie Mac provide it for the calculation of its house price index (unlike OFHEO's house price index, the data it provided us for this review are not publicly released). We then compared the median purchase prices according to these sources of data. Because homes financed with government-insured loans are typically lower priced and neither the Finance Board nor OFHEO includes data on government-insured mortgages, we also calculated median purchase prices that included data from FHA and the Department of Veterans Affairs with the data from OFHEO and the Finance Board.

Throughout our review, we discussed issues related to data sources for measuring house price changes with officials from FHA, OFHEO, HUD's Office of Policy Development and Research, the Finance Board, Fannie Mae, and Freddie Mac. We also supplemented this information by discussing these issues with officials of private organizations having an interest or expertise in this area, including the National Association of Homebuilders and the Mortgage Insurance Companies of America. We also discussed the results of our analysis comparing median prices from the various sources with officials from the agencies that provided these data.

We did not directly assess the reliability of the data we obtained from FHA, the Department of Veterans Affairs, OFHEO, or the Finance Board. To assure ourselves that each data set was sufficiently reliable for our purposes, we reviewed the procedures each agency had in place to ensure its data are reliable and accurate.

We conducted our review from July 1998 through March 1999 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the appropriate congressional committees; the Honorable Andrew Cuomo, Secretary of Housing and Urban Development; the Honorable Bruce A. Morrison, Chairman of the Federal Housing Finance Board; the Honorable Mark Kinsey, Acting Director of the Office of Federal Housing Enterprise Oversight; the Honorable Franklin D. Raines, Chairman and Chief Executive Officer of Fannie Mae; the Honorable Leland C. Brendsel, Chairman and Chief Executive Officer of Freddie Mac; and the Honorable Jacob J. Lew, Director of the Office of Management and Budget. We will make copies available to others upon request.

Please call me at (202) 512-7631 if you or your staff have any questions about the material in this report. Major contributors to this report are listed in appendix IV.

Sincerely yours,

Stanley J. Czerwinski
Associate Director, Housing and
Community Development Issues

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## Abbreviations

| | |
|---|---|
| CMSA | consolidated metropolitan statistical area |
| FHA | Federal Housing Administration |
| HUD | Department of Housing and Urban Development |
| MSA | metropolitan statistical area |
| OFHEO | Office of Federal Housing Enterprise Oversight |

# Metropolitan Areas in Which GAO Compared Median Home Sales Price Data

Albany-Schenectady-Troy, New York
Atlanta, Georgia
Austin-San Marcos, Texas
Birmingham, Alabama
Buffalo-Niagara Falls, New York
Charlotte-Gastonia-Rock Hill, North Carolina-South Carolina
Columbus, Ohio
Dayton-Springfield, Ohio
Fresno, California
Grand Rapids-Muskegon-Holland, Michigan
Greensboro-Winston-Salem-High Point, North Carolina
Greenville-Spartanburg-Anderson, South Carolina
Hartford, Connecticut
Honolulu, Hawaii
Indianapolis, Indiana
Jacksonville, Florida
Kansas City, Missouri-Kansas
Las Vegas, Nevada-Arizona
Louisville, Kentucky-Indiana
Memphis, Tennessee-Arkansas-Mississippi
Minneapolis-St. Paul, Minnesota-Wisconsin
Nashville, Tennessee
New Orleans, Louisiana
Norfolk-Virginia Beach-Newport News, Virginia-North Carolina
Oklahoma City, Oklahoma
Omaha, Nebraska-Iowa
Orlando, Florida
Phoenix-Mesa, Arizona
Pittsburgh, Pennsylvania
Providence-Fall River-Warwick, Rhode Island-Massachusetts
Raleigh-Durham-Chapel Hill, North Carolina
Richmond-Petersburg, Virginia
Rochester, New York
Salt Lake City-Ogden, Utah
San Antonio, Texas
San Diego, California
St. Louis, Missouri-Illinois
Syracuse, New York
Tampa-St. Petersburg-Clearwater, Florida
Tucson, Arizona
Tulsa, Oklahoma
West Palm Beach-Boca Raton, Florida

# Comments From the Department of Housing and Urban Development

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-8000

MAR 10 1999

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

Mr. Stanley J. Czerwinski
Associate Director
Housing and Community Development Issues
United States General Accounting Office
Washington, DC 20548

Dear Mr. Czerwinski:

Thank you for your letter of February 17, 1999, which included a draft report entitled FHA Loan Limits: Finance Board Data Are a Reasonable Source of Home Sales Prices (GAO/RCED-99-78). The report effectively depicts the practices established and the resources deployed by HUD to develop its FHA single family maximum mortgage limits. Your report also identifies the data collection obstacles associated with this activity.

The Department appreciates the General Accounting Office's (GAO) recognition that the data source most often used when updating FHA mortgage limits, the Federal Housing Finance Board (FHFB), reasonably represents median home sale prices for most of the areas analyzed in the report. The Department is always concerned that data used for analytical work is accurate, timely and verifiable. The GAO report provides that confirmation.

The FHFB has proven to be a reliable source for the data needed by HUD to establish its maximum mortgage limits. Nevertheless, the Department continues to explore additional data sources to assist us in updating mortgage limits. Neither of the primary sources, the FHFB or data from the Office of Federal Housing Enterprise Oversight (OFHEO) covers the entire nation's housing market. The Department concurs with the observation that there is a need to obtain improved data at the county level, primarily due to recent legislation mandating that the highest loan limit of any county within a metropolitan statistical area (MSA) applies to all counties in that area.

Again, I thank you for the opportunity to comment on the draft report.

Sincerely,

William C. Apgar

William C. Apgar
Assistant Secretary for Housing-
Federal Housing Commissioner

# Comments From the Federal Housing Finance Board

**Federal Housing Finance Board**
1777 F Street, N.W., Washington, D.C. 20006
Telephone: (202) 408-2500 Facsimile: (202) 408-1435

March 4, 1999

Mr. Stanley J. Czerwinski
Associate Director
Housing and Community Development Issues
Resources, Community, and Economic Development Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Czerwinski:

Thank you for the opportunity to comment on the draft GAO report "FHA Loan Limits: Finance Board Data Are a Reasonable Source of Home Sales Prices."

The Finance Board's Monthly Interest Rate Survey (MIRS), which is the source of this data, is designed to report sales prices and mortgage rates only for about 30 very large metropolitan areas. It is not designed to report house prices and mortgage rates for smaller metropolitan areas nor for single counties. The data comes from a voluntary sample of mortgage lenders, and, as a result, the Finance Board cannot assure that sample sizes in individual metropolitan areas and counties will be large enough to provide statistically reliable results.

The now defunct Federal Home Loan Bank Board initiated the Monthly Interest Rate Survey in 1963. At that time, most mortgage lending was attributable to savings and loan associations, whose principal regulator was the Federal Home Loan Bank Board. The primary mortgage market has changed dramatically since 1963. Mortgage companies have supplanted savings and loan associations as the dominant originators of mortgages, and the Finance Board is not the primary regulator of any lender participating in the survey.

I believe that it is important for the Finance Board to continue and to expand our role as the central depository in the Federal government for information, data, and analysis on the primary mortgage market. If we are to provide statistically reliable information for medium-size and small metropolitan areas and single counties, however, we would require a significant expansion of the sample of lenders. If the Congress wishes the Department of Housing and Urban Development and the Internal Revenue Service to have better data on medium-size and small metropolitan areas and single counties from our survey, the Congress should consider providing the Finance Board an express mandate to conduct MIRS along with statutory authority to mandate participation of selected lenders in the survey. Selected lenders would include depository institutions that are Federal Home Loan Bank members as well as non-members and mortgage companies. Such a broader survey would also provide even more complete and reliable information to Fannie Mae and Freddie Mae when they determine the conforming loan limit (see 12 U.S.C. 1454(a)(2) and 12 U.S.C. 1717(b)(2)), which, in turn, determines the upper limit on FHA-insured mortgages in high-cost areas (see the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1999, Pub. L. No. 105-276, 112 Stat. 2461, section 228 (codified at 12 U.S.C. section 1709(b)(2)(A)) (1998)).

Sincerely,

B A Morrison

Bruce A. Morrison
Chairman

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