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Increased FHA Limits Bolster Sales

Tightening credit standards and the fall-out of the subprime market are forcing more borrowers to turn to loans backed by the Federal Housing Administration, or FHA loans. Obtaining financing through the FHA program offers a low mortgage rate option for borrowers with a small downpayment or blemished credit. In years past, few borrowers turned to this loan program because of its cumbersome process and low price ceiling. But, this year, the government temporarily increased loan limits to be more inline within individual markets. In many counties throughout Southern California, the loan limit more than doubled, making them more competitive against other loan products. These changes resulted in a resurgence in the FHA program, and it is estimated that nearly 40% of new home closings nationwide are financed by the FHA.

- **Locally, more than 64% of detached new homes projects in Southern California are priced under the FHA loan limit.** We analyzed detached home projects throughout the Southland that were priced under the county's individual FHA loan limit and found more than two-thirds of projects qualified for FHA loans. However, FHA borrowers found fewer options in San Diego and Orange Counties, where only 17% and 25 of active detached projects%, respectively, were priced below the FHA limit.
- **Projects priced under the FHA loan limit sell faster.** Detached projects priced under the FHA limit have a competitive edge, reporting slightly higher sales velocity this year. Projects priced under the limits on average sold 1.45 homes per month compared to less than one sale per month at projects priced above the FHA limit. There were approximately 5,400 sales this year at projects priced below the FHA limit, which was twice the volume compared to projects priced above the limit.
- **Loan Limits to Change in 2009** – Limits next year will be based on 115% of the local median home price, capped at \$625,500. The new cap will impact nearly all the counties with the exception of the Inland Empire where the current FHA loan limit stands at \$500,000.

Southern California Detached Projects Under FHA Loan Limits

	2008 FHA Loan Limit	# of Projects		FHA % of Total	YTD Sales Rate	
		FHA	Non-FHA		FHA	non-FHA
Los Angeles County	\$729,750	107	29	79%	1.30	0.63
Orange County	\$729,750	18	55	25%	2.26	1.24
Riverside County	\$500,000	358	122	75%	1.38	0.74
San Bernardino County	\$500,000	156	46	77%	0.97	0.68
San Diego County	\$697,500	24	118	17%	1.22	0.99
Ventura County	\$729,750	13	15	46%	1.57	1.23
Totals		676	385	64%	1.45	0.92

NOTE: Data does not reflect actual FHA sales, but rather the number of projects that are priced under each county's individual FHA loan limits. Year to date data is through July 2008. SOURCE: HWMI

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