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FHA Lowers '09 Loan Limits

As 2009 approaches, the U.S. Department of Housing and Urban Development will readjust their loan limits after almost a year of more generous boundaries. The original force behind adjusting these limits was to open up homeownership as part of the 2008 Hope for Homeowners stimulus package and make these loans more accessible to those in high cost areas. In addition to lowering the cap substantially from this year, the FHA will require a slightly higher down payment (3.5% versus 3.0%). Buyers can still take advantage of the 2008 lending limits through the end of this month, assuming a quick 30-day escrow.

- New ceiling remains above the median existing home price and in most cases above median new home values.** While significantly lower than 2008 levels, the new limits adjust based on each county's median existing home price. However, the adjustment does not appear to keep pace with the rapid price declines in Southern California. Even with the cap decrease, homebuilders can be comforted by the comparatively favorable relationship to new home values. Only new home buyers looking in Orange, San Diego and Ventura Counties will find themselves shy of the new limits. By comparison, Los Angeles buyers can consider homes more than \$150,000 above the current median new home price yet still fall within the 2009 FHA limit.
- FHA loans are more competitive with other loan programs.** FHA loans currently capture just over 16% of all U.S. new home closings, which is up substantially from 2007 proving the true attraction of the 2008 program's higher limits. Considering that in the month of August, 24% of new home sales nationwide were closed using an FHA loan, we anticipate this loan program will likely account for one in five closings in 2008. On a more local level, First American Real Estate reported that FHA loans accounted for 18% of the Orange County and Los Angeles total home closings in August, up drastically from a mere 2.3% a year ago. The post subprime era of toxic debt created a growing market for FHA loans, which allow homebuyers with less than stellar credit to obtain affordable financing with little downpayment. FHA loans offer a more stringent screening process than the loose financing days of the subprime market and Alt-A heyday. While the limits adjust downward in 2009, we expect these programs to remain a prominent financing alternative given drastic price declines in home values.

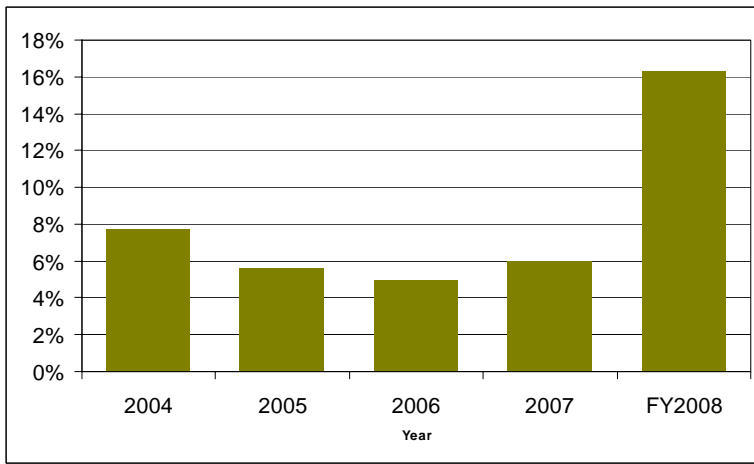
Southern California FHA Loan Limits

County	FHA Loan Limit		Median Detached Price	
	2008	2009	New Home	Existing
Los Angeles County	\$729,750	\$625,500	\$462,000	\$360,000
Orange County	\$729,750	\$625,500	\$829,630	\$480,000
Riverside County	\$500,000	\$355,350	\$342,990	\$225,000
San Bernardino County	\$500,000	\$355,350	\$355,291	\$194,000
San Diego County	\$697,500	\$546,250	\$586,000	\$360,000
Ventura County	\$729,750	\$598,000	\$699,900	\$410,000

SOURCE: US Dept. of Housing and Urban Development; Meyers Builder Advisors; DataQuick

NOTE: New home median price reflects 3Q2008 data. Existing median home price reflects September 2008 data.

% of U.S. New Home Closings Using FHA Financing



SOURCE: US Dept. of Housing and Urban Development; Meyers Builder Advisors

About Meyers Builder Advisors

[Meyers Builder Advisors](#) brings together a talented pool of consultants with a strong understanding of the homebuilding industry and the market dynamics that drive it. Combined, the team boasts over 100 years of market experience, with a wide range of services including site specific analysis, product development, strategic planning and land acquisition services. The group has advised on a wide range of residential product types throughout the United States and has successfully assisted a long list of builders, developers, and financial institutions.

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