December 1, 2021

Services

Public Finance

Single Family Housing

Just-Released 2022 FHA SF Loan Limits and IRS Purchase Price Limits

IRS Rev. Proc. 2021-17, which is the currently effective pronouncement on Single Family purchase price limits, in Section 3.03 provides that if FHA releases future updated loan limits, a Housing Finance Agency "may" use the newer FHA loan limits to compute new Single Family purchase price limits. This is done by dividing the applicable new FHA loan limit by 1.03 (and then applying the applicable 90% [for non-targeted area mortgage loans] or 110% [for targeted area mortgage loans] to such numbers).

On November 30 (yesterday), FHA released its loan limits for 2022 (see HUD Mortgagee Letter 2021-28, effective Jan. 1, 2022), noting that loan limits again went up (and significantly) in most locales due to robust increases in home purchase prices (and historically low mortgage interest rates). The "minimum" or "base" FHA loan limit increased to $420,680 (from $356,362), resulting in a 2022 average single family MRB 1-unit purchase price floor of $408,427 (i.e., $420,680/1.03), to which the 90/110 factor must be applied, with a $970,800 FHA loan limit ceiling (formerly $822,375). These increases in the FHA loan limits and the related increases in average area purchase prices may also impact the calculation of the high housing cost adjustments to the income limits that apply to MRB-financed home mortgage loans. As a result, an HFA should check the FHA loan limits to determine whether there are any areas which will have a different FHA loan limit for 2022 as well as a different high housing cost adjustment to the income limits.

What does this mean for HFAs? HFAs are NOT, as of January 1, 2022, required to use the new 2022 FHA loan limits to determine average area purchase price limits. The present IRS limits that were published in Revenue Procedure 2021-17 are still in effect until the IRS issues a new Rev. Proc. superseding the existing limits. Typically that will occur in the first half of 2022. However, beginning January 1, 2022 (the effective date of the new FHA loan limits), an HFA has the **option** of calculating new purchase price limits using the 2022 FHA loan limits or continuing to use the purchase price limits published last year in Revenue Procedure 2021-17.

Since the FHA base loan limit for 2022 has increased, the base IRS purchase price limit using the 2022 FHA base loan limits would also increase. Most areas will have increased FHA loan limits for 2022, and an HFA can use the new FHA loan limits to compute a higher purchase price limit for that area if the HFA so desires. (Warning – in some years, when the IRS issues its new purchase price Rev. Proc. [generally in

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March], the safe harbor numbers in the new Rev. Proc. are impacted by the new divisor that is applied to the FHA loan limit in order to determine the average area purchase price. That impact could be positive or negative, depending on whether the divisor is above or below 1. Such a change could also impact any high housing cost calculations.)

Until the IRS publishes a new Revenue Procedure on this subject, you may continue to use $331,900 as the nationwide average purchase price for purposes of computing the high housing cost adjustment to the income limit applicable to certain high housing cost areas. Note that a higher average area purchase price could result in a higher income limit based upon the high housing cost adjustment to the income limitation. If you need assistance with that calculation, please let us know. But keep in mind that such calculation will undoubtedly change again when HUD publishes new median income numbers on April 1, 2022.

If you have questions about any of the foregoing, please contact any of the attorneys listed on the left in Kutak Rock's Housing Finance Agency Practice Group. We would be happy to discuss this with you.