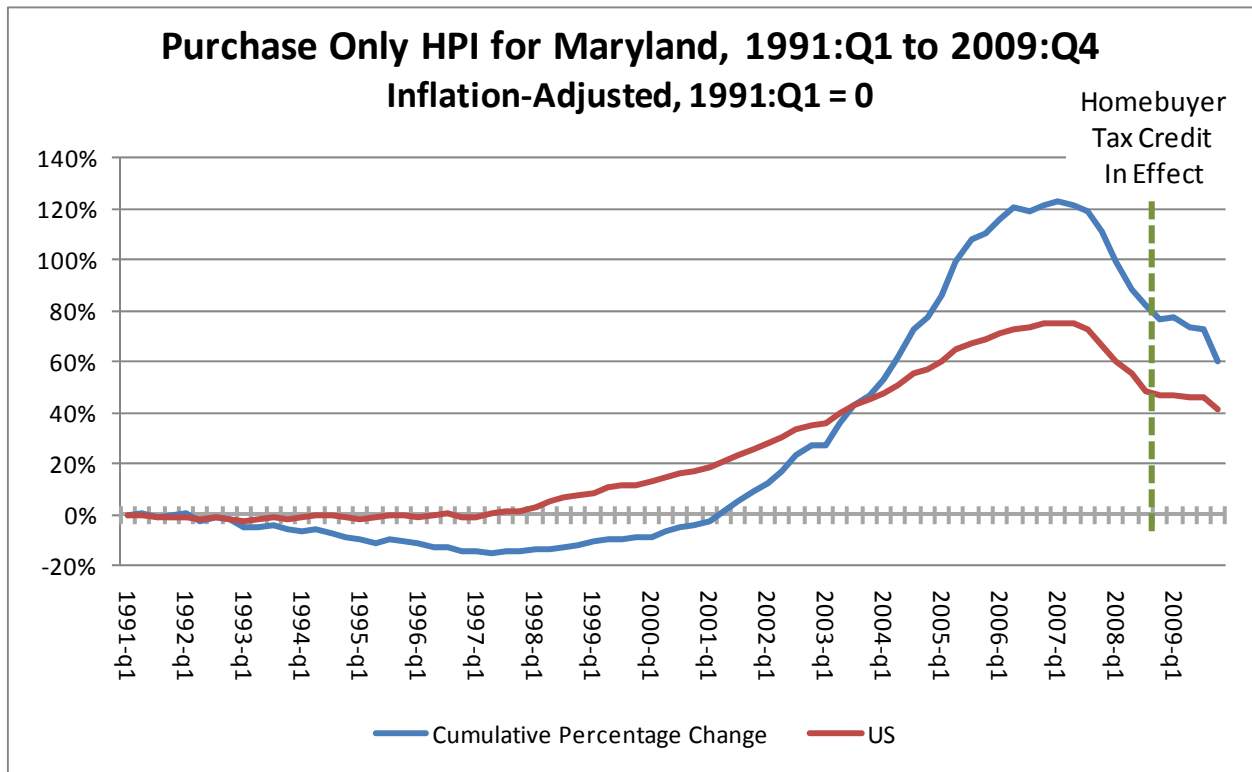


The House Price Index (HPI) for Purchase Only Mortgage Transactions in Maryland, 1991 – 2009
After Moderating for Four Quarters, Existing Home Values Decline Sharply in Maryland

After an historical run-up in housing prices that peaked in the first quarter of 2007, the prices of existing single-family homes in Maryland purchased with conforming mortgages¹ have now fallen by an average of 26.4 percent after accounting for inflation, according to the Federal Home Finance Agency’s Purchase Only House Price Index for the fourth quarter of 2009.² After leveling off for four quarters in a row, single-family detached home prices suffered a significant decline between 2009:Q3 and 2009:Q4, bringing prices down to the same level as they were in 2004:Q2. Still, housing prices in Maryland remain 26.4 percent above where they were at the beginning of 2000. Nationally, housing valuations decreased 20.0 percent after their peak in the fourth quarter of 2006 and are now roughly equal to second quarter 2003 valuations. On average, national single-family detached home prices are 18.0 percent higher than in 2000.



Source: Quarterly House Price Index, Fourth Quarter 2009, Federal Housing Finance Agency, 2010

The slowing decline in home prices from 2008:Q4 to 2009:Q3 occurred at the same time that the Federal government was offering tax credits to home buyers,³ a policy that is credited with stabilizing home prices

¹ According to the FHFA, “Fannie Mae and Freddie Mac are restricted by law to purchasing single-family mortgages with origination balances below a specific amount, known as the “conforming loan limit.” Loans above this limit are known as jumbo loans.” Conforming loans are the only loans tracked by the House Price Index. See page 6 for more information.

² This data tracks the valuation of existing single-family homes over time for which two mortgages used to purchase a home were originated and subsequently purchased by Freddie Mac or Fannie Mae since 1991. See page 7 for a more complete explanation.

³ The Federal government has offered two different tax incentives for homebuyers since 2008. The first was effective September 16, 2008 and created by the *Housing and Economic Recovery Act of 2008* and gave first-time home buyers

in the lower-priced first time home buyer market.⁴ On September 10, 2009 the IRS reported that 1.4 million taxpayers had received benefits from the tax credits up to that point,⁵ while the National Association of Realtors reported on January 25, 2010 that existing home sales numbers in 2009 had increased approximately 4.9 percent over 2008, the first increase in sales numbers since 2005.⁶ However, it seems that the tax credit program is no longer having an effect on single-family detached home prices.

Volume of Mortgage Funds Used for Home Purchases

Data on the percentage of mortgage volume used for purchases and refinancing are not reported by the FHFA for the state or local level. National data is available, however, and it shows that both the volume of conventional conforming mortgage activity in dollars and the share of those mortgage dollars used to purchase homes is down significantly in recent quarters. In 2009:Q4, 15.6 percent of all dollars loaned for conventional conforming mortgages were used to purchase homes, one of the lowest shares since 1991 and down from 18.4 percent in the last quarter. However, this is still above the first two quarters of 2009, which represented the lowest (2009:Q1, 7.6%) and second-lowest (2009:Q2, 10.0%) percentages of total conventional mortgage volume being used to purchase homes since the beginning of the data series.⁷

While data on the dollar value of conventional mortgage volume for 2009 is not yet available from the FHFA, the trend from 1991 to 2008 shows that the volume of mortgages increased substantially during the “housing bubble” period of 2001 to 2007, with a substantial spike in 2003. By 2008, conventional mortgage volume had fallen to approximately the same inflation-adjusted level as it was in 2000. The increase in mortgage volume during the 2000’s was mostly absorbed by refinancings. While the share of mortgage dollars used for purchasing homes never rose above 50 percent during the bubble period, the amount of money borrowed to purchase homes during this time was generally much larger than during the 1990’s, when the share of mortgage dollars used for purchases rose as high as 78 percent.

At the height of the housing bubble in 2006, the percentage of conventional mortgages fell to approximately 32 percent of all mortgages originations, with other mortgage types (such as subprime, alternative-A, and jumbo mortgages) greatly increasing in number. By 2008, however, conventional mortgages increased to 62 percent of all mortgages, and subprime, Alt-A, and jumbo mortgage originations decreased substantially. In 2008, conventional mortgages and FHA-insured mortgages made up over 80 percent of the mortgage market, up from about 35 percent in 2006.⁸

a \$7,500 credit for homes purchased from April 8, 2008 to January 1, 2009. The second was created by the *American Recovery and Reinvestment Act of 2009* and extended by the *Worker, Homeownership and Business Assistance Act of 2009* and gives first-time homebuyers up to an \$8,000 tax credit and repeat homebuyers a maximum \$6,500 credit.

⁴ http://www.realtor.org/press_room/news_releases/2010/01/december_down

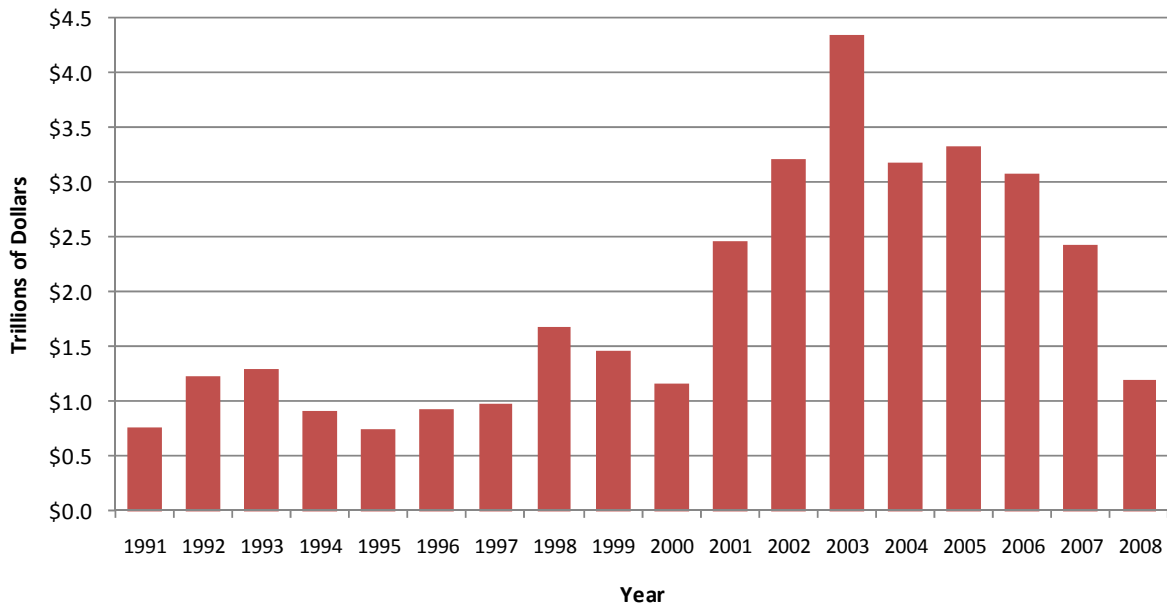
⁵ <http://www.irs.gov/newsroom/article/0,,id=213375,00.html>

⁶ http://www.realtor.org/press_room/news_releases/2010/01/december_down

⁷ Mortgage funds not used to purchase a home are used to refinance existing homes, either to receive better mortgage terms or to extract cash value from a property.

⁸ FHFA Report to Congress, 2008 (<http://www.fhfa.gov/Default.aspx?Page=240>)

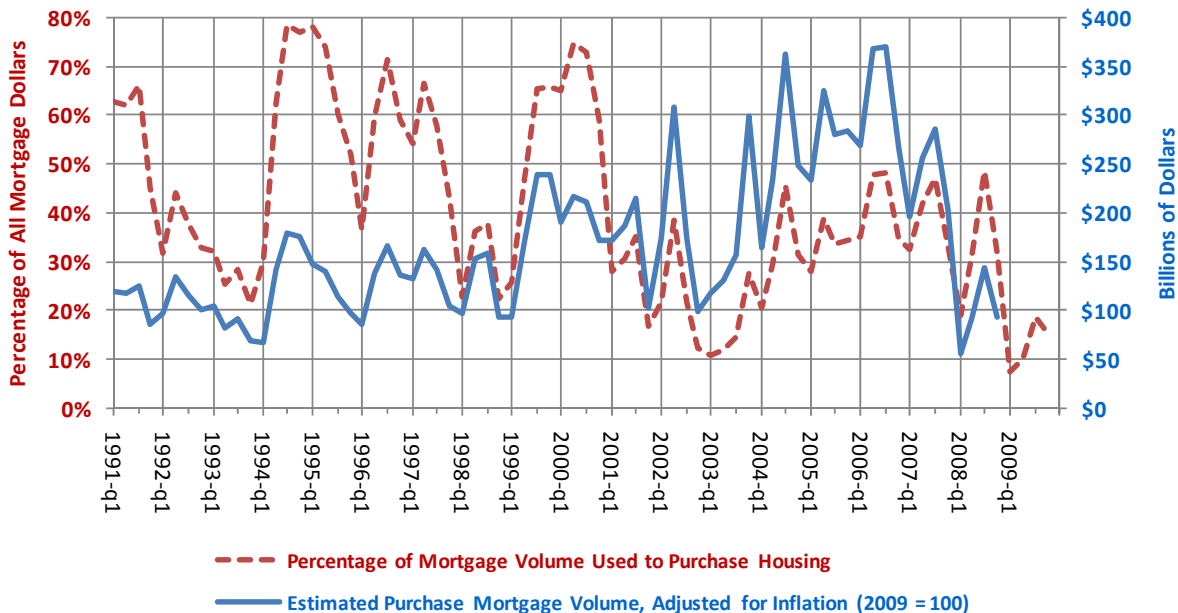
Conventional Mortgage Volume in the U.S., 1991-2008* Adjusted for Inflation (2009 = 100)



* Includes both mortgages used for home purchases and refinancings

Source: Federal Home Finance Agency, 2008 Annual Report (Figure 7)

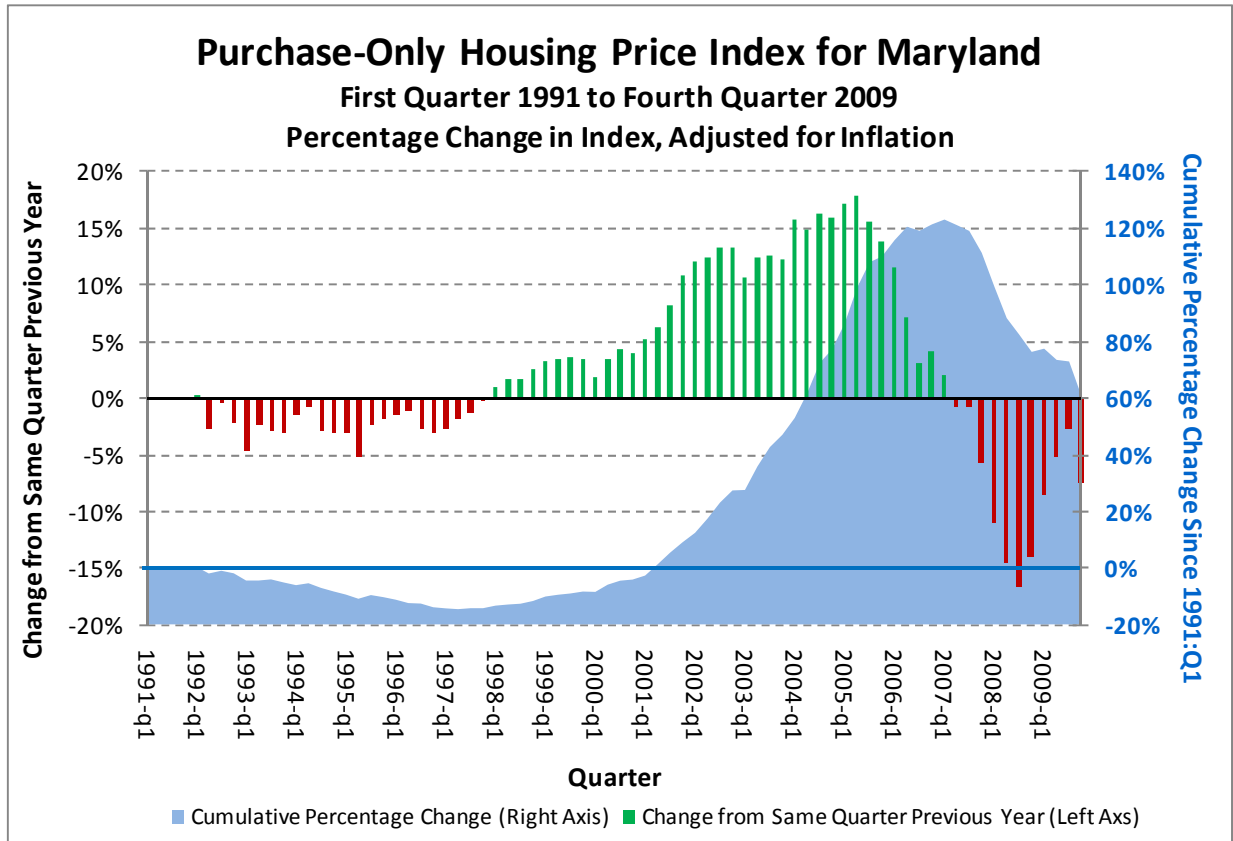
Conventional Conforming Loan Volume Used to Purchase Housing in the U.S., 1991-2009



Source: Mortgage Percentages: Federal Home Finance Agency HPI Database, Fourth Quarter 2009. Estimated Purchase Mortgage Volume: FHFA 2008 Annual Report (Figure 7). Yearly mortgage volumes were divided by four to estimate quarterly volume, then multiplied by the percentage of conventional mortgages used to purchase housing to estimate purchase mortgage volume.

Rapid Rise and Fall in Single-Family House Value

Like the rest of the country, Maryland experienced a significant rise in housing unit valuations from the late 1990s to the mid-2000's. According to the House Price Index (HPI) published by the Federal Home Finance Agency (FHFA), the inflation-adjusted purchase price of existing single-family detached homes in Maryland increased 123.2 percent from the first quarter of 1991 (the start of the purchase-only data series) to the first quarter of 2007. However, the average price of a single-family detached home purchased with a conventional mortgage declined from 1991:Q1 to 1997:Q1 and did not regain the value it lost in the 1990's until the second quarter of 2001. Starting from the trough of the last housing price decline in Maryland, which occurred in 1997:Q2, prices actually increased 136.9 percent by the market peak in 2007:Q1.



Source: Quarterly House Price Index, Fourth Quarter 2009, Federal Housing Finance Agency, 2010

Ten Years of Value Appreciation

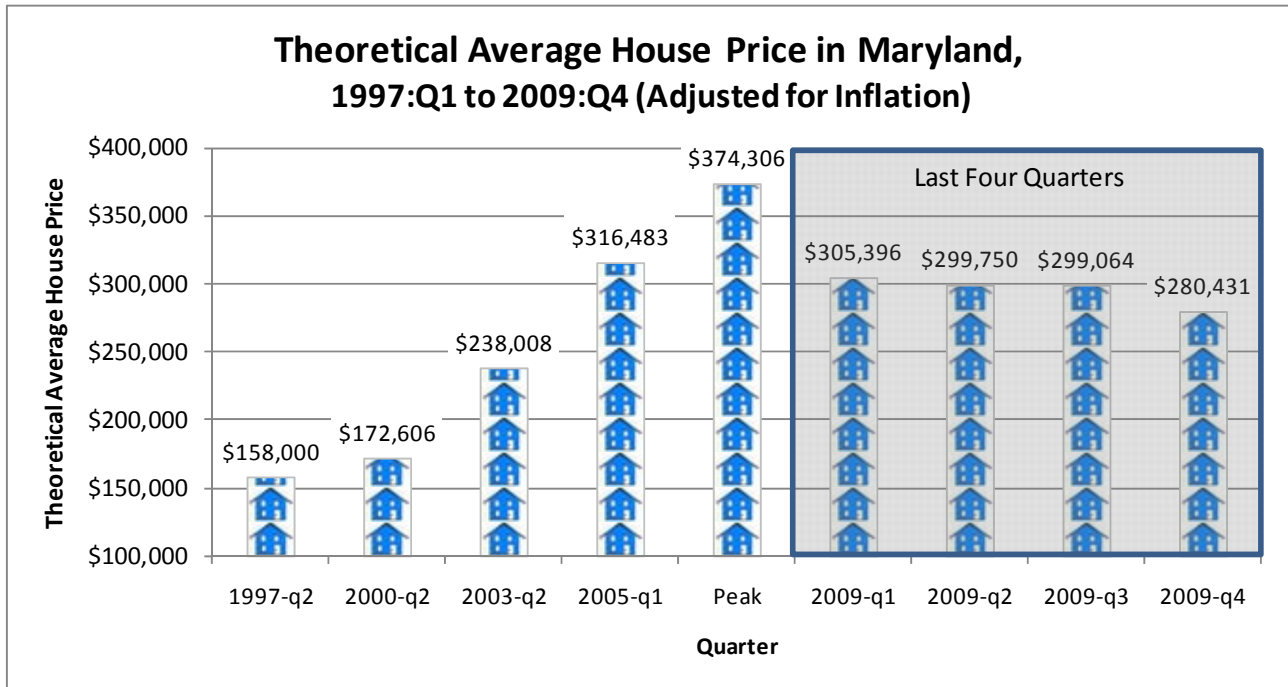
The second quarter of 1997 represented a trough, the end of a period of price appreciation and decline that occurred from the mid-1980s to the mid-1990s⁹ and price appreciation once again turned positive by the third quarter of 1997. For the next 40 quarters Maryland saw a consistent increase in housing price appreciation, with quarter over quarter price appreciation exceeding 10 percent after the fourth quarter of 2001 and exceeding 15 percent after the first quarter of 2004. Price appreciation peaked at 17.9 percent

⁹ To see the trend for housing unit price appreciation previous to 1991, please see *The House Price Index (HPI) for All Mortgage Transactions in Maryland, 1975 – 2009* on this website.

between 2004:Q2 and 2005:Q2. By the first quarter of 2007, a theoretical \$158,000 house¹⁰ in 1997:Q2 would have been valued at \$374,306, an increase in value of \$216,306.

Price Appreciation Peak, Decline, and Recent Price Stability

By 2007:Q1 this sustained period of high price appreciation was over, and had started turning into a period of rapid price depreciation. By 2008:Q1, the quarter over quarter depreciation rate exceeded 10 percent, and by 2008:Q3 it hit 16.7 percent. However, in the next quarter the depreciation rate started to ease, and by 2009:Q3 it had moderated to 2.8 percent after accounting for inflation. However, in 2009:Q4 the rate of depreciation grew to 7.5 percent, perhaps due to the waning effect of the 2008 and 2009 homebuyer tax credits. By 2009:Q4, cumulative home price appreciation since 1997:Q2 had decreased from the 2007:Q1 high of 136.9 percent to 77.5 percent. That theoretical \$158,000 house from 1997:Q2 would now be worth \$280,431, a reduction of \$93,874 (-25.1%) from the all-time peak just over two years earlier. In the previous four quarters, the theoretical price of an average single-family home has varied no more than two percent from quarter to quarter, so this marks the first substantial real price decline for single family detached housing in Maryland in 12 months.



Source: Quarterly House Price Index, Fourth Quarter 2009, Federal Housing Finance Agency, 2010

For more information, contact James Palma at jpalma@mdp.state.md.us.

¹⁰ In 1997, the approximate median value for the average house sold in Maryland was \$158,000 in 2009:Q4 dollars. This value was estimated using 1999 REIS data from the Maryland Association of Realtors.

About GSE Conforming Mortgage Loans

Both the Purchase Only House Price Index (HPI) and the All Transactions House Price Index are calculated from information gathered from the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). Both Fannie Mae and Freddie Mac are government-sponsored enterprises (GSEs), and are limited by law as to the value of the mortgages that they can purchase from mortgage originators (such as banks and other mortgage lenders). Mortgages that can be purchased by the GSEs are known as conforming conventional mortgages, as they conform to the rules set by Congress for purchase by the GSEs.

This means that other types of mortgages are not included in the HPI calculation. Single-family homes financed by government insured loans (such as VA loans) and those financed by mortgages whose value exceeds the conforming loan threshold (known as jumbo loans) are not included in the HPI. Also, because the HPI only measures single family units, loans for all attached homes, townhomes and condominiums are excluded whether these loans are conforming or not.

Obtaining a conforming loan can be problematic in areas with expensive housing, as even a modest single-family house may require a mortgage that is too large to conform to GSE regulations. In 2008, the FHFA recognized this issue and implemented different maximum levels for “high-cost” counties across the United States.¹¹ Previously, the only deviations from the national conforming loan limit were for high costs states like Alaska and Hawaii. Current 2010 conforming loan limits for Maryland jurisdictions are listed below.

Conforming Loan Limits for Single Family Homes in High Cost Jurisdictions in Maryland, 2010

Metropolitan Statistical Area / Jurisdiction	Conforming Loan Limit
Baltimore-Towson (Metropolitan Area) Component Jurisdictions: Anne Arundel, Baltimore, Carroll, Harford, Howard, and Queen Anne's Counties, Baltimore City	\$560,000
Easton (Micropolitan Area) Component Jurisdictions: Talbot County	\$443,750
Ocean Pines (Micropolitan Area) Component Jurisdictions: Worcester County	\$437,500
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD (Metropolitan Area) Component Jurisdictions (MD): Cecil County	\$420,000
Washington-Arlington-Alexandria, DC-VA-MD-WV (Metropolitan Area) Component Jurisdictions (MD): Calvert, Charles, Frederick, Montgomery, and Prince George's Counties	\$729,750
Garrett County	\$437,500
All Other Jurisdictions	\$417,000

Source: Federal Home Finance Agency

¹¹ The conforming loan limit in “general” cost counties across the lower 48 states has been \$417,000 since 2006. Before 2008, no conforming mortgage in any county in the lower 48 states could exceed this value.

About the FHFA's Purchase Only House Price Index (HPI)

The Purchase Only House Price Index (HPI) is a data series published by the Federal Housing Finance Agency (FHFA), a government agency responsible for overseeing the actions of the Federal National Mortgage Association (FNMA), commonly known as Fannie Mae, and the Federal Home Loan Mortgage Corporation (FHLMC), commonly known as Freddie Mac.¹² According to the FHFA, "The HPI for each geographic area is estimated using repeated observations of housing values for individual single-family residential properties on which at least two mortgages were originated and subsequently purchased by either Freddie Mac or Fannie Mae since January 1975."¹³ Data from these two sources cover 40 percent of all mortgages issued in the U.S. Restricting the index to existing housing sales helps to control for the effect that differing housing types and characteristics might have on the data.¹⁴ To remove the effects that inflation has on home prices, the HPI was adjusted for inflation using the Bureau of Labor Statistics' Consumer Price Index "All Items Less Shelter" series.¹⁵ Unlike the similar All Transactions HPI, the Purchase Only HPI uses only mortgage data used to purchase an existing home (excluding mortgages used to refinance existing homes) and only goes back to 1991 rather than 1975.¹⁶

Number of Housing Units by Units in Structure, Maryland, 3-Year 2005-2007 Estimate

	Estimate	Margin of Error	Percentage	Margin of Error
Total housing units	2,296,973	+/-290	100.0%	
1-unit, detached	1,188,547	+/-5,418	51.7%	+/-0.2%
1-unit, attached	483,342	+/-4,804	21.0%	+/-0.2%
2 units	43,419	+/-2,364	1.9%	+/-0.1%
3 or 4 units	56,672	+/-2,496	2.5%	+/-0.1%
5 to 9 units	126,125	+/-3,502	5.5%	+/-0.2%
10 to 19 units	189,099	+/-3,623	8.2%	+/-0.2%
20 or more units	168,771	+/-3,148	7.3%	+/-0.1%
Mobile home	40,826	+/-1,936	1.8%	+/-0.1%
Boat, RV, van, etc.	172	+/-103	0.0%	+/-0.0%

Source: 2005-2007 American Community Survey 3-Year Estimates

As this data is published for states and many Metropolitan Statistical Areas (MSAs) within the U.S., it is useful for tracking housing price trends on the state and local level. One fault with this data set is that it only tracks single-family detached housing, which in Maryland only comprises 52 percent of all housing units (61 percent in the U.S. as a whole). Another is that it doesn't capture the price effects that newly-built homes may have on the housing market until after they have been sold and resold. Even with these faults, the HPI is useful as it supplies consistent data across the U.S. for tracking home sales price appreciation trends over an 18 year period.

¹² The Federal Housing Finance Agency (FHFA) was created on July 30, 2008 through a legislative merger of the Office of Federal Housing Enterprise Oversight (OFHEO), the Federal Housing Finance Board (FHFB) and the U.S. Department of Housing and Urban Development (HUD) government-sponsored enterprise (GSE) mission team. FHFA regulates Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks.

¹³ http://www.fhfa.gov/webfiles/896/hpi_tech.pdf.

¹⁴ For more information, see http://www.fhfa.gov/webfiles/896/hpi_tech.pdf.

¹⁵ Adjusted using series ID# CUUR0000SA0L2 as described in question 17 of the HPI FAQ, available at <http://www.fhfa.gov/Default.aspx?Page=196>.

¹⁶ FHFA has a separate index, the All Transactions HPI, that uses both purchase price data from home sales and appraisal data from refinancings. That index is discussed in the report *The House Price Index (HPI) for All Mortgage Types for Maryland, 1975 – 2009*, also on this website.

This data set is also related to, but is not the same as, the S&P/Case-Shiller® Home Price Indices published by Standard & Poors. There are three major differences between the S&P/Case-Shiller® Index and FHFA's Purchase Only Home Price Index. First, S&P/Case-Shiller uses selling prices recorded at county assessor's and recorder's offices, while FHFA uses data from conforming, conventional mortgages provided by Fannie Mae and Freddie Mac. Second, S&P/Case-Shiller® "value-weights" its index, meaning that more expensive homes have more influence on the index, while FHFA weights all home prices equally. Finally, S&P/Case-Shiller® does not cover 13 states, while FHFA data covers all 50 states. The FHFA created a detailed report that covers the similarities and differences between the two indexes, available at <http://www.fhfa.gov/webfiles/1163/OFHEOSPCS12008.pdf>.