# Sacramento Sierra Chapter

Appraisal Institute
Professionals Providing Real Estate Solutions



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# APPRAISAL NEWS & REVIEW


**Volume # 1**
**January 2006**


## *President's Message*

Happy New Year to everyone! I hope you all survived the holiday storms safely and that we will all have a productive and profitable new year.

On January 21 the officers, directors and committee chairs of your chapter will be attending a leadership retreat and planning session to map out our chapter goals for the year, review what we have been doing well (and poorly) during the past couple of years, and explore what new services and assistance we can offer our members during 2006. One major purpose of the leadership retreat is to weld the chapter leaders together into an effective team that can work efficiently, productively and imaginatively together to provide services, solve problems, and attain goals for the benefit of our chapter and its members.

Both national and your chapter are searching for ways to enhance services to members – ways to make your membership in the Appraisal Institute and the Sacramento-Sierra Chapter more meaningful, more supportive of your professional work, more valuable and rewarding, and even more fun. We want first to serve our current members, but we also want to make membership in the Institute attractive to appraisers who are not yet members, but who ought to be. We need to provide more support, education and training for residential appraisers while continuing to expand and enhance services to those on the commercial side.

A few of the things we are considering are:

? a local reference library of research materials we all need but find expensive to maintain and keep up to date. Items like BOMA and IREM and other experience reports and statistics for both commercial and residential appraisers. *What should be included?*

? a liaison group of appraisers, lenders and others who use our appraisal and consulting services to provide opportunities for our clients to get to know more about us and to let both sides discuss problems, changes in regulations and other matters. *Who should be included?*

? a support group of designation candidates who can meet together to discuss problems and progress, provide input to the chapter leadership about the needs of candidates and provide opportunities for younger people in the professional to get to know one another. *Should this be a formal sub-group of the chapter?*

? a variety of purely social events that allow members (and potential members) to get to know one another, network and have some fun. *Ideas, anyone?*

? local workshops on topics within our chapter boundaries and work areas, like a round-table on all the new commercial and residential development proposals for downtown Sacramento, or a workshop on the current state of flood control in the greater metro area. *Additional topics?*

These are just a few of the ideas we are looking into. I hope that any of you who have suggestions or comments about the direction we are heading and the things we should consider doing today and in the future will take a few minutes to call or email me or one of the other officers or directors to give us the benefit of your insight. We need your input! And you need for us to know what you want and expect of your chapter and what ideas you have for things the chapter could be doing to be more helpful to you. Please take a few minutes to give us the benefit of your insights, experience and needs.

*Richard Van Steenkiste, MAI*
*Chapter President*

# CALIFORNIA CONSERVATION EASEMENTS SEMINAR

*(Kudos to Colin Connor for preparing the following article!)*

*If you weren't fortunate enough to attend the California Conservation Easements seminar held on November 29, 2005 at the Dante Club in Sacramento, here are some highlights of the presentation by Ron Garland, MAI, SRA and Eric Griffin, MAI:*

- There are very few sales of properties encumbered by conservation easements - and even fewer sales of the easements by themselves.

- The "market" for conservation easements is cyclical, with periods of little or no demand. For this reason, the argument could be made that the appraiser is not reporting a market value, but is instead reporting a use value specific to a particular property.

- Because there is no established market for the buying and selling of conservation easements, the methodology typically used to value conservation easements is a before and after analysis.

- Generally speaking, the difference between the "before value" (as unencumbered by the conservation easement) and the encumbered "after value" represents the value of the conservation easement.

- Always insist on having a copy of the conservation easement document prior to providing an appraisal. This is important because the easement document typically spells out the uses that are prohibited and/or permitted.

- The uses permitted or prohibited by the easement document may have a significant effect on the highest and best use in the after condition, such as precluding future lot splits.

- The highest and best use of a rural or agricultural property can frequently be multiple, concurrent uses, either on separate portions of the same property (different row crops, or row crops and orchards) or on the same ground at different times (rice field and duck club).

- Know who the intended user of the appraisal is. Often, appraisals for conservation easements may have more than one intended user (i.e., financing sources) and thus have differing appraisal requirements.

- In bidding on potential conservation easement assignments, be aware of the time and research needed to prepare a well-supported and credible appraisal. Remember, you are essentially doing two appraisals: one in the before condition, and another in the after condition.

- In doing appraisals of conservation easements for the IRS, be aware that the IRS has a personal financial liability clause that allows them to go after the appraiser in certain instances.

- Many government agencies are unwilling to acquire conservation easements through eminent domain because of the potential difficulty in proving that no reasonable alternative exists to acquiring a conservation easement on a specific property. Instead, many agencies would rather acquire the entire fee simple interest in the property.

- Conservation easements can be terminated through eminent domain, but it depends upon the policies of the condemning agency and how the easement was established. For instance, it is less certain that a local government agency would be able to terminate an easement established through eminent domain by a State or Federal agency.

In addition to the points presented above, the seminar was helpful in addressing other appraisal issues, such as: identifying important physical characteristics of the property to be encumbered; the differences between the Federal Rule and California law regarding eminent domain valuation; various highest and best issues; and, application of valuation methodology. The seminar also included a couple of case studies that allowed the attendees to see how the same property could be valued differently by two appraisers.

A sell-out crowd of over 80 people, some coming from as far away as Hawaii, Puerto Rico, and Modesto, attended the seminar. The event was kept lively by the interaction between the instructors and the attendees. Notable local attendees who shared their opinions and experiences included Chuck Bucaria, MAI, Jeff Ridolfi, MAI, and Craig Thurston, MAI. Also notable, but this time for remaining quiet, was Cydney Bender-Reents, MAI (You know I'm only kidding Cydney).

Overall, I thought the seminar was very informative and well worth the time and money. The instructors, Ron Garland and Eric Griffin, are very knowledgeable about the topic and were very generous in sharing both their experiences and their expertise. I would highly recommend attending the seminar for any appraiser thinking about making conservation easements a part of their appraisal practice.

*-Colin Connor*

## Scholarships Are Available Through the Appraisal Institute

*Several scholarships are being offered through the National Chapter of the Appraisal Institute. The scholarships are* described briefly below.
*For details visit:* http://www.appraisalinstitute.org/education/scolarshp.asp

***AI Education Trust Scholarship***
Educational scholarships available to both graduate and undergraduate students majoring in real estate appraisal, land economics, real estate or allied fields. Selection is based on academic excellence.

***Educational Scholarship Program***
This scholarship is awared to minority and women college students pursuing academic degrees in real estate appraisal or related fields.

***Regional Scholarship Program***
This scholarship is awarded to associate members who are active in appraising and need financial assistance to take Appraisal Institute courses leading to the SRA or MAI designations.

# Education Highlights from 2005 (information submitted by Steve Harrington, MAI)

2005 was a busy year for education that included sponsoring ten (10) Appraisal Institute Courses, seven (7) seminars, and an overall attendance of 725 students. We plan to equal or exceed the amount of courses and seminars during 2006. Two of the seminars were "home grown" topics that included an *Update on Eminent Domain Law in California*, and *Appraising California Conservation Easements*. Both seminars were well attended and received good reviews for the attendees.

*We would like to schedule one or more "home grown" seminars into the 2006 schedule, and request our members input and suggestions regarding topics and potential instructors, panelists, or speakers.*

Since locally produced, or "home grown" seminars typically require a lot of coordination and must be approved by OREA for credits, ***the education committee needs your suggestions during the first quarter of 2006.*** Please contact any of the education committee members as follows:

| | |
|---|---|
| Steve Harrington, MAI | (916) 448-3435 |
| Janet Holland, MAI | (916) 787-9196 |
| Dave Wraa, MAI | (916) 978-4900 |
| Doug Brennan, MAI | (530) 673-5167 |

## 2006 - UPCOMING EDUCATIONAL OFFERINGS FOR 2006

**(Offered by the Sacramento/Sierra Chapter of the Appraisal Institute)**

The current education schedule for 2006 follows. It is important to note that the schedule is updated as necessary on a regular basis, and you are encouraged to check the Sacramento Sierra Chapter website frequently (www.sacramentosierra.org) to review the updated education schedule throughout the year. Additional seminars will likely also be added to the schedule.

| Date | Course/Seminar | Instructor | Location | Cost |
|---|---|---|---|---|
| Jan. 20 | Reviewing Residential Appraisal Reports | Dawn Molitor, SRA | UC Davis Extension Center, Sacramento | $150/$175 |
| Jan. 27 | National Uniform Standards of Professional Appraisal Practice (USPAP) 7-Hour Update Course 400 | Tom Boyle, MAI | UC Davis Extension Center, Sacramento | $150/$175 |
| Feb. 3,4 & 10, 11 | Basic Appraisal Principles | Harry Holzhauer, MAI, SRA | University of Phoenix Rancho Cordova | $525/$625 |
| Mar.10, 11 & 17, 18 | Basic Appraisal Procedures | Harry Holzhauer, MAI, SRA | University of Phoenix Rancho Cordova | $525/$625 |
| 3-23 (Redding) 3-24 (Sacto) | FHA and the New Residential Appraisal Forms (New Seminar for 2006) | Dawn Molitor, SRA | TBA | $149/$179 |
| April 20, 21, 22 & 27, 28, 29 | Basic Income Capitalization | Gary DeWeese, MAI | University of Phoenix Rancho Cordova | $575/$675 |
| May 5 & 6 | Residential Market Analysis and Highest & Best Use | Dawn Molitor, SRA | University of Phoenix Rancho Cordova | $295/$395 |
| May 15-20 | Advanced Income Capitalization | Stephen Roach & Allan Safer | TBA | $650/$750 |
| Sept. 8 | 7-Hour National USPAP Update Course | Stephanie Coleman | TBA | TBA |
| Sept. 22 | Business Practices & Ethics Course | Stephanie Coleman | TBA | TBA |
| Oct. 26 & 27 | TAHOE SEMINAR | TBA | TBA | TBA |

For up-to-date information and online registration for all seminars and courses offered by this Chapter, check out our website at: www.sac-ai.org or contact Elaine or Emily at the Chapter office at (916) 972-9700.

***Education Committee Volunteers***.

We are looking for Chapter members to serve on the education committee. We highly encourage anyone that wants to be involved with providing quality education to our chapter to contact the Education Chair, Steve Harrington, at (916) 448-3435. Although we welcome all, we would like to see more representation from the residential appraisers and associate members.

## *OTHER EDUCATIONAL OFFERINGS OF INTEREST*

### 2006 - SPRING AG OUTLOOK CONFERENCE

California Chapter of the American Society of Farm Managers & Rural Appraisers *~California Agriculture & Stewards of the Land ~* April 26-27, 2006 – Holiday Inn Hotel & Conference Center, Visalia, CA; Features of the Spring Ag Outlook Conference will include Commodity updates from key industry leaders; the release of 2006 Trends in Agricultural Land & Lease Values for California s agricultural property; Presentation of 2006 distinguished Agriculturist of the Year Award; along with other AG related information. To be placed on a mailing list to receive a conference registration package, please send an email to: secretary@calasfmra.com.

### IRWA 52nd Annual International Education Conference

Denver, Colorado: June 18 – 21, 2006 (Sunday thru Wednesday)
For details and registration information visit: www.irwaonline.org

### Pan Pacific Congress

The 23rd Pan Pacific Congress will be held September 16-19, 2006, in San Francisco. The theme for the event is "The Valuation Revolution: New Partners, Borderless Markets, Innovative Technology. The focus will be on cross-border work and the application of the real estate professionals skill in working for multinational companies or for international investors. Specific topics proposed for the conference include: studies of multinational companies real estate holdings; third-party analysis of corporate fixed assets; case studies in financial harmonization across borders; capital markets and the real estate professional; implementation of international valuation standards; application of technology in real estate investment, appraisal and consulting; and cooperation between the real estate professional and other professions.

## Be Part of the Future of the Appraisal Profession – LDAC 2006

*May 16-18, Washington DC*

The Leadership Development & Advisory Council (LDAC) has served as a source of leadership and as an inspiration for new programming ideas for the Appraisal Institute for over 30 years. LDAC helps to establish an appraiser presence in Congress and provides a forum where ideas and opinions of targeted topics of concern in the appraisal profession are exchanged. For more information about LDAC visit: www.appraisalinstitute.org/membership/events/LDAC.asp If you would like to be considered as a delegate from the Sacramento Sierra Chapter, please contact Emily at our Chapter office.

## Nevada Establishes List of Qualified Appraisers for Public Land

The Nevada Division of State Lands Department of Conservation and Natural Resources is establishing a list of persons qualified to conduct appraisals of land offered for sale by the State Land Registrar. Specifically, the Division will maintain a list of appraisers who are willing and qualified to conduct appraisals of land. The State Land Registrar will have the final determination regarding which appraisers are included on the list. However, at a minimum, persons must be licensed by the state of Nevada as a Certified General Appraiser.

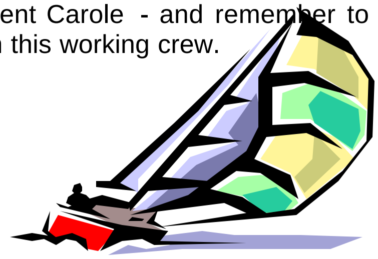
# MEMBER NEWS

**Advanced Curriculum Overview Added to CE Requirements:** The Board also approved requiring all designated members who are not retired to take an "Advanced Curriculum Overview Course" for all continuing education cycles beginning on January 1, 2007, and thereafter. The course would cover advanced topics in appraising and the latest in appraisal theory and techniques; it is expected the course would run two days for members holding AI general designations and one day for those holding AI residential designations. *Both programs are expected to be offered in both classroom and online settings.*

**CE Hour Requirements Remain at 100 hours:** In November 2005, the Appraisal Institute's National Board of Directors voted to maintain at 100 hours the amount of continuing education (CE) credit required of designated members, rather than increase the hours to 125. In a related action, the Board approved allowing designated members in their five-year cycles to earn 1.25 hours of credit for every hour of Appraisal Institute advanced education they take (advanced education to be determined by the Admissions Development & Qualifications Committee). This will take effect for CE cycles beginning January 1, 2006. Designated members may also earn up to 25 hours of CE credit per cycle for service to the Appraisal Institute, and up to 10 additional hours of credit for real estate-related service to the profession outside of the Appraisal Institute, such as serving on a state regulatory board, or board of The Appraisal Foundation.

### Carol McIntosh – Semi- Retired?

After hearing about Carole McIntosh SRA's exciting sailing expedition over this past summer, it's no surprise to hear of her application for a semi-retired status with the Appraisal Institute. Carole has been actively involved with our Chapter since 1988. Enjoy your retirement Carole - and remember to stay in touch with this working crew.




The Chapter Installation Dinner was held on November 17, 2005 at the Del Paso Country Club. In addition to installing the Officers and Directors for 2006 the Chapter presented a Lifetime Achievement Award to Howard A. Pearson, MAI. Jim Glickman, MAI and Smokey Stover, MAI regaled those in attendance with their stories of Howard throughout his long career as an appraiser. This was the final chapter meeting of 2005, and was a fitting end to a very successful year for the chapter.

# AN UPDATE FROM OUR LEGISLATIVE ADVOCATE - BIKE BELOTE

The following includes *excerpts* from a recent memorandum (1/9/06) ***FROM: Mike Belote, California Advocates, Inc., TO: The California Government Relations Subcommittee of the Appraisal Institute.*** The information reflects recent conversations with Tony Majewski, Director of the OREA, concerning activities at OREA, and other items of interest to the Government Relations Subcommittee.

**FEE REDUCTIONS**: For our (Appraisal Institute) members, the most important element in the regulation package concerns the ***fee reductions***. Tony Majewski continues to maintain that the reduction strikes an appropriate balance between fee relief for licensees, and protection for OREA funds in order to perform essential functions.

**STAFFING:** Tony indicates that, with the recent hiring of an investigator, there are presently no vacancies in authorized positions, meaning that all current positions, with the exception of the Director, are now filled. He is continuing to seek authority to hire an additional investigator.

**LICENSES:** The number of licenses, broadly defined, issued by OREA **is now *at an all-time high.*** As of December 30, 2005, the total is now 19,077. This includes 6536 trainees, 5031 licenses, 4192 residential certificates, and 3318 general certificates. Perhaps surprisingly, all four categories, including trainees, continue to experience gains.

**PROCESSING TIMES:** The turn-around time for all license functions continues to decrease. Renewals requiring continuing education are now being issued in 29 days (previously reported 49); fee-only renewals are being issued in 15 days (previously 42); and upgrades and initial licenses are at 64 days (previously 80/85).

**ADMINISTRATIVE ASSISTANCE**: As of July 1, 2005 OREA is contracting with the Department of Real Estate to perform certain in-house, non-regulatory functions of the Office. These administrative functions include certain human resources activities, purchasing, etc. OREA had previously contracted with another state agency for these services. They report that the arrangement with DRE is working well.

**ENFORCEMENT:** Tony reports that OREA currently has 235 open enforcement cases pending. Although he did not mention it, this appears to be a continuing reduction, since at the time of my last report the number of open cases was 261. The office continues to receive complaints at the rate of 3-14 per week. A large percentage of the complaints continue to be closed without further action: of approximately 10 complaints received recently, the Office found it appropriate to open a file on only one. Of the 235 open cases, 63 have been open for more than 12 months, and approximately 40 have been submitted to the Attorney General's office for either settlement or formal action. The 12-month period is significant because the Appraisal Subcommittee takes the position that, absent special circumstances, enforcement cases should be concluded within this time frame. Anyone familiar at all with license discipline knows, however, that the pesky concept of due process will often drag issues out more than 12 months.

**STATUS OF LEGISLATION:** The Legislature returned for the second year of the 2005-2006 Session last Wednesday, January 4. Current activity is focused on "two-year bills" carried over from last year. There are two relevant deadlines in the near term: January 27 is the date to have requests for new bills submitted to the Office of Legislative Counsel for drafting, and all 2006 bills must be introduced by February 24. At that time, all bills will be read for potential impact on AI, and appropriate bills placed in the computer.

We do intend to introduce a bill in the near-term to add licensed and certified appraisers to Insurance Code Section 1749.85, which is intended to limit those persons eligible to estimate the "replacement value" of "structures" for purposes of homeowner's insurance coverage. Carole Laval has been helpful in assembling materials on cost approach, and our conversations with staff of the Senate Banking, Finance, and Insurance Committee have been encouraging. The bill will be drafted with an urgency clause, which subjects the bill to a 2/3 vote requirement, but makes it effective immediately upon the Governor's signature.

*-Mike Belote, California Advocates, Inc.*

## THE OREA NEWSLETTER IS BACK (ON-LINE)

After a few several years of silence, the OREA is again publishing a newsletter. Their most recent issue (Fall 2005) includes some REALLY GOOD information. For the full publication, visit OREA's website at http://www.orea.ca.gov. The following article has been reprinted with permission from OREA.

### *The Trainee Dilemma*

During the past four years, a large number of individuals have entered the appraisal industry. Trainee application rates have been so heavy that trainees now account for approximately 35 percent of the total licensing database. As the number of trainees has increased, OREA has noted a veritable Pandora's box of problems arising out of the working relationships established between many trainees and their mentors. Following is a brief overview of the problems and some steps trainees can take to avoid a poor start in the industry.

Many trainees decided to become appraisers because of the perceived benefits of the industry. They hear, often through advertisements by providers of educational services, that there are excellent opportunities for good compensation within the appraisal industry. In many cases, those opportunities do not materialize for newly licensed trainees.

OREA receives numerous calls each week from trainees seeking advice on how to achieve employment opportunities; however, it is not the function of OREA to serve as an employment agency. Trainees are responsible for researching employment opportunities available within the appraisal industry prior to applying for the trainee license. Trainees must determine if there is a fit for them in the industry. Ideally, a trainee should have an arrangement for training with a mentor prior to application.

In addition, trainees must evaluate their true motivation for entering the appraisal industry. Is the concept of property valuation exciting? If so, the motivation to learn appraisal theory and practice with the intent of establishing oneself as a contributing member of the industry will pay rewards over the longer term. If the motivation of becoming an appraiser is solely for economic gain, reconsideration of involvement in appraisal would be prudent, as the industry tends to be cyclical in nature for many appraisers. During the 1990's, for example, many appraisers were forced to weather the downturn in the demand for appraisals due to the sluggish real estate market. The appraisal industry is in need of newcomers who desire to educate themselves about appraisal theory and practice and contribute professionally to the industry in a positive manner during both the "up" and the "down" cycles, not those who are seeking a quick way to make money.

Searching and locating the correct mentor is key to a successful apprenticeship. Trainees must align themselves with individuals who exhibit professionalism, are ethical, and are willing to invest their time in training. At the present time, there are many supervisory appraisers who view trainees solely as an economic enhancement to increase revenue. OREA is aware of situations where residential trainees have associated with "trainee mill" appraisal shops, where the training is minimal and sometimes consists of being accompanied only once on a property inspection. The trainees are then expected to independently conduct inspections at a rapid pace. Many of these "absentee" supervisory appraisers then sign the appraisal reports falsely certifying that they performed exterior and interior inspections of the subject properties. A goal at OREA is to remove these supervisory appraisers from the appraisal industry through revocation of their license, as they have created very misleading appraisal reports. In these cases, the trainees will also likely not receive experience credit for their participation in these assignments.

Trainees can benefit from attending meetings and seminars sponsored by professional organizations, which provide the opportunity for networking and meeting qualified appraisers. In these instances it is important that trainees show prospective employers their qualifications to enter the industry and their level of interest and dedication to the profession. Trainees must also demonstrate their willingness to make a full time commitment to the job of being an appraiser. On several occasions OREA staff members have observed trainees networking at professional organization meetings. Many of those trainees eventually gained their opportunity to enter the profession.

It is important to seek classes recognized in the industry for their quality both in content and presentation. Quick on-line courses are not always the best method for education. The current pass rate for applicants taking the examination for the first time is less than 40 percent; therefore, we recommend as a better alternative, particularly for qualifying education, courses in a classroom setting with student/instructor interaction. It is important for all appraisers to continue to complete relevant classes and seminars to increase their knowledge of appraisal theory and practice.

With the proper education and success in selecting the right mentor, the training process begins. Trainees and mentors have mutual obligations. Trainees must be assured that they are receiving adequate and thorough instruction. Trainees must eventually be involved in every step of the appraisal process. Supervisory appraisers must accompany trainees on property inspections until they are convinced that trainees are competent to independently complete inspections. If a trainee is not a co-signor of the appraisal report, but is recognized for his or her significant professional assistance, the scope of that involvement must be clearly disclosed to comply with USPAP. This disclosure will also assist OREA in evaluating experience according to the required experience categories. Accurate logs of appraisal assignments must be maintained. Supervisory appraisers must always remember that when they co-sign a report they are taking full responsibility for the contents of the report.

Because of heavy lending volumes, the demand for appraisals has been enormous during the past few years. As a result, there have been opportunities for new entrants into the industry. Unfortunately, many supervisory appraisers and trainees have abused this opportunity. Their transgressions account for a significant amount of the current caseload at OREA. In order to achieve success, trainees must experience good quality education, search for and learn from an ethical and knowledgeable mentor, and make a strong commitment to efficiently learn appraisal practice. With the proper training and education, appraiser trainees will be on the way to becoming valued members of the appraisal industry, and will have the capability of weathering the economic cycles that occur.

## Landmark Tax Appraisal Legislation Passes Senate

Legislation establishing an IRS definition of "qualified appraiser" has moved a step closed to becoming law with the Senate passage of S. 2020, the Tax Relief Act of 2005 on November 18. S. 2020 requires appraisers performing valuations for tax purposes to be designated by the Appraisal Institute or another professional appraisal organization or meet comparable requirements to be determined by the IRS in forthcoming regulations. The bill also requires conformance to generally accepted appraisal standards, adds accountability measures for taxpayers and appraisers, and requires appraisers to prove that he or she has taken valuation courses specific to the type of property being appraised.

The reforms are consistent with recommendations that have been made by the Appraisal Institute, American Society of Appraisers and the American Society of Farm Managers and Rural Appraisers. The Appraisal Institute encourages all members to contact their Representatives urging support for the Senate appraisal reforms. The bill is slated to be considered by a House-Senate Conference Committee in the next month. For more information about S. 2020 and the IRS appraisal reforms, contact Bill Garber at 202-298-5586, bgarber@appraisalinstitute.org or Isabel Parker at 202-298-5597, iparker@appraisalinstitute.org.

## FHA Raises Home Loan Limits to Increase Homeownership

The Federal Housing Administration has increased its single-family home mortgage limits by more than 15 percent. Effective January 1, 2006, FHA will insure single-family home mortgages up to $200,160 in standard areas and up to $362,790 in high-cost areas. The high-cost amount is almost $50,000 more than 2005. The loan limits for two-, three- and four-unit dwellings also increased.

Last year, the loan limits were $172,632 in standard areas and $312,895 in high-cost areas. Five years ago, the limits ranged from just $132,000 to $239,250. These levels were below the cost of many homes in many communities. As a result, families who needed FHA mortgage insurance to qualify to buy a home were effectively locked out of the process. "These higher loan limits will strengthen the economy by helping to create more construction and more jobs, while contributing to the President's commitment to create 5.5 million new minority homeowners by the end of the decade," HUD Secretary Alphonso Jackson said.

The new loan limits are part of an annual adjustment HUD makes to account for rising home prices. Under federal law, loan limits are tied to the conforming loan limits of Freddie Mac and Fannie Mae. HUD calculates the FHA mortgage loan limit for 3,226 geographic areas within the United States. The limits vary from area to area, but all fall within the new range of $200,160 to $362,790. Higher FHA loan limits don't cost the government any money, because the FHA Insurance Fund is fully supported by premiums paid by borrowers who receive FHA insurance.

Many low-income and first-time homebuyers are attracted to FHA-insured loans because the agency requires only a 3 percent down payment. The increases will also benefit senior citizens who qualify for FHA-insured reverse mortgages. Reverse mortgages allow homeowners age 62 and older to borrow against the value of their homes without selling them. Homeowners can select a lump-sum payment, monthly payments or tap into a line of credit. No repayment is required as long as a homeowner lives in a home with a reverse mortgage. The reverse mortgage is repaid, with interest, when a homeowner sells the home or dies.

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