or bathrooms for each unit of residence. In response to this point, the definition of "dwelling unit" is changed in the final rule to include single room properties, dwellings that include offices, and dwellings located in mixeduse properties.

Median Income. Freddie Mac, addressing the Low- and Moderate-Income Goal, commented that the definition of "median income" should be revised to permit household income in nonmetropolitan areas to be measured against the greater of the county median income or the statewide nonmetropolitan median. Freddie Mac noted that "the proposed rule would classify a borrower with an income of \$12,000 living in a county with median income of \$11,000 as 'upper income." The final rule (in §81.15) clarifies that "median income" for families outside of metropolitan statistical areas (MSAs) means the greater of the county median income or the statewide nonmetropolitan median income for the area where the property is located.

Mortgages and Interests in Mortgages. The GSEs commented that, in tracking the Freddie Mac Act, the definition of "mortgage" appears to have dropped a line relating to interests in mortgages. Freddie Mac suggested adding to the rule's definition "\* \* \* and includes interests in mortgages. Such term shall also include a mortgage, lien, or other security interest on the stock or membership certificate." (Emphasis in original.)

FHEFSSA requires the Secretary to establish goals for the "purchases of mortgages." The proposed and final rules specifically allow certain interests in mortgages, such as participations and credit enhancements, to count toward achievement of the goals, because these transactions are essentially the same as mortgage purchases. The final rule provides that "interests in mortgages" are mortgages and count toward achievement of the housing goals. Because defining mortgages to include all "interests in mortgages" is potentially over-inclusive and may encompass transactions or activities that are not equivalent and should not appropriately count toward achievement of the goals, the counting provisions in §81.16(b) list specific types of transactions that do not count toward achievement of the goals, including certain "interests in mortgages.'

*Refinancing.* Freddie Mac commented that, by excluding from the definition of "refinancing" the renegotiation of a multifamily mortgage when a balloon payment is due within one year, it is not clear whether the excluded activity is intended to be treated as a "mortgage purchase." The final rule includes as new mortgages multifamily mortgages that have balloon payments due within 1 year after the date of closing of the renegotiated mortgages.

Very-low-Income. Freddie Mac commented that the term "very-lowincome" should be defined consistently with certain other HUD regulations and programs. Freddie Mac noted that these programs' formulas for determining eligibility sets the "very-low-income" limit above 60 percent of the local area median income in 48 metropolitan areas and 1,502 nonmetropolitan counties with either unusually low income or unusually high housing costs. Freddie Mac urged HUD to create exceptions to the definition of "very-low-income" for multifamily projects benefiting from a Federal assistance program, where such projects are located in areas with either unusually low income or unusually high housing costs.

As part of the Special Affordable Housing Goal, Congress specifically required the Secretary to establish a housing subgoal that targets very-lowincome families. Section 1303(19) of FHEFSSA defines "very low-income" as:

(1) In the case of owner-occupied units, income not in excess of 60 percent of area median income; and

(2) In the case of rental units, income not in excess of 60 percent of area median income, with adjustments for smaller and larger families, as determined by the Secretary.

In certain HUD programs the Secretary has statutory authority to make the type of adjustments that Freddie Mac has requested HUD to make under FHEFSSA. However, FHEFSSA does not provide similar authority. The only adjustments to the definition of "very-low-income" that are permissible under FHEFSSA are adjustments for smaller and larger families in the case of rental units.

## Subpart B—Housing Goals

## Overview

The greatest amount of controversy in the public comments centered on the housing goals. Fannie Mae and a number of commenters focused on the levels of the goals, the concept of "leading the industry," and the methodology used to estimate the size of the conventional market for each of the goals. In its critique of the housing goals portion of the proposed rule, Freddie Mac advanced six major concerns: (1) The market estimates are flawed and will result in infeasible goals over time; (2) the proposed rule does not establish

a link between identified housing needs and the housing goals; (3) HUD has not adequately taken market volatility into account in establishing the goals; (4) the GSEs' previous performance is incorrectly assessed; (5) the proposed rule presents too narrow a concept of leading the industry; and (6) the proposed rule does not adequately address the risks posed by increased levels of multifamily purchases. Freddie Mac also expressed concern that in establishing the goals as proposed, HUD would micromanage the type and location of the GSEs' mortgage purchases, severely limiting the GSEs' ability to respond to the market in a timely manner.

General comments on the housing goals are discussed in this section. More detailed analyses of some of these issues are presented in four technical appendices immediately following the text of the rule, as well as in an economic analysis of the rule prepared by HUD.

## Levels of the Goals

Fannie Mae requested that the levels of the goals be set lower than in the proposed rule, commenting that the housing goals should be set at a "reasonable and appropriate share" of Fannie Mae's business. Fannie Mae also urged HUD to refrain from frequent adjustments in the goals and to avoid increasing the goals if Fannie Mae exceeded them. Similarly, Freddie Mac stressed the necessity of setting "conservative" goals that are capable of being met under a variety of economic conditions.

Both GSEs agreed that HUD had not adequately considered the impact that changes in national economic conditions could have on the size of the conventional, conforming market. The GSEs commented that HUD was assuming, in its market estimates, that the unusually favorable economic and housing market conditions of 1993– 1994 would continue in the future.

A number of commenters, mainly representing public-interest organizations, asked for more aggressive goal-setting, urging that the levels of the goals were too low, given the benefits provided to the GSEs by virtue of their Federal charters, their current levels of performance, and the scope of the nation's housing problems.

Some commenters, primarily industry representatives, expressed concern with the proposed rule's stated intention to set future goals at higher levels. A number of commenters joined with the GSEs in recommending that goals remain stable over the long term and be imposed at reasonable levels that not