

only assure the GSEs will increase their support of low- and moderate-income housing, but also reflect that economic conditions may influence the capacity of the GSEs to support such housing in any given year.

The GSEs held differing views on how far into the future the goals should be fixed. Fannie Mae commented that the goals should be fixed for a substantial period of time, to allow the GSEs to incorporate the goals into their long-range business plans and corporate strategies. Freddie Mac expressed serious doubt that meaningful goals could be established for a period more than two years into the future.

Under the rule, the following goals are established: the annual goal for each GSE's purchases of mortgages on housing for low- and moderate-income families is—for 1996, 40 percent of the total number of dwelling units financed by that GSE's mortgage purchases in 1996 and, for each of the years 1997–99, 42 percent of the total number of dwelling units financed by that GSE's mortgage purchases in each of those years; the annual goal for each GSE's purchases of mortgages on housing located in central cities, rural areas, and other underserved areas is—for 1996, 21 percent of the total number of dwelling units financed by that GSE's mortgage purchases in 1996 and, for each of the years 1997–99, 24 percent of the total number of dwelling units financed by that GSE's mortgage purchases in each of those years; and the annual goal for each GSE's purchases of mortgages on special affordable housing is—for 1996, 12 percent of the total number of dwelling units financed by that GSE's mortgage purchases in 1996 and, for each of the years 1997–99, 24 percent of the total number of dwelling units financed by that GSE's mortgage purchases in each of those years; additionally, the special affordable housing goal for each of these years shall include mortgage purchases financing dwelling units in multifamily housing totalling not less than 0.8 percent of the dollar volume of mortgages purchased by the respective GSE in 1994. For 2000 and thereafter the Secretary shall establish new annual goals; pending establishment of goals for 2000 and thereafter, the annual goal for each of those years for each of the three goals shall be the same as the 1999 goals.

The levels of the housing goals established in this final rule meet the following objectives: they are reasonable and appropriate, they reflect consideration of the statutory factors for establishing housing goals, and they are set far enough into the future to allow

the GSEs to engage in long-term planning.

First, the levels of the three housing goals are reasonable and appropriate, as summarized below in the discussion of each of the housing goals and detailed further in the appendices. The goals have been set judiciously in relation to reasonable estimates of the market share of the mortgages originated that would qualify under the goals. The levels of the goals also reflect the cyclical nature of the mortgage markets and the need to provide a margin for unforeseen macroeconomic impacts.

Second, the levels of the goals reflect a full consideration of all factors for consideration under FHEFSSA. The GSEs expressed concern that the process used by the Secretary for establishing the levels of the goals was too rigid, driven primarily by the market-share estimates for each of the goals. This concern is unfounded. In establishing the goals, the Secretary carefully considered the factors mandated by FHEFSSA. These factors, which encompass more than just the estimate of the market for each goal, include housing needs, the financial conditions of the GSEs, economic and demographic conditions, previous performance, and the GSEs' leadership role within the industry. The appendices that accompany this rule explain in detail the evaluation of these factors.

The levels of the goals represent a benchmark against which the GSEs' performance can be measured. The levels are designed to be standards, not ceilings. They are not so high that the GSEs are likely to fail to meet the goals. Instead, the levels of the goals represent a reasonable and appropriate share of the GSEs' business that—at a minimum—should be devoted to meeting the needs of lower-income renters and home buyers and of residents of areas underserved by the mortgage markets. The final rule has been revised to allow the GSEs maximum flexibility in choosing how they achieve the goals. The levels of the goals also reflect careful consideration of the concerns expressed by the GSEs and other commenters that economic and demographic conditions be taken into account. The levels of the goals have been set so that they should be attainable in economic conditions more adverse than those experienced in the past few years.

Third, HUD considered carefully the comments expressing concern about the future levels of the goals. To provide the GSEs with the predictability needed to manage their operations, the levels of the goals have been established for the next four years. The Secretary can, by

regulation, change the level of the goals for the years 2000 and beyond based on the experience of the previous years. If the Secretary elects not to change them, they will be left at the 1999 levels for future years.

#### Leading the Industry

The proposed rule asserted that the GSEs have a responsibility because of their Federal charters to lead the industry in expanding housing opportunities for low-income home buyers and renters and for residents of underserved areas. The proposed rule requested comment on how the Secretary should consider "leading the industry" in establishing the levels of the housing goals.

Freddie Mac commented that the proposed rule's presentation of "leading the industry" was too narrow. Freddie Mac argued that HUD, in suggesting that leading the industry only be judged on percentage terms, ignored the GSEs' non-goal-related activities that provide stability and liquidity to the mortgage markets. Freddie Mac suggested that HUD should view industry leadership to include GSE activities that broaden the entire market, including "pioneering innovation, the establishment of new business practices and programs, and the generation of market efficiencies." Further, HUD should evaluate the GSEs' charge to lead the industry in qualitative, and not just quantitative, terms.

Several industry commenters echoed Freddie Mac's concerns about considering "leading the industry" in merely percentage terms. They commented that Congress had included the ability of the GSEs to lead the industry as one of several factors to be considered. Further, they noted that leading the industry can be demonstrated in many ways beyond just the level of mortgage purchases. Reaching reasonable goals would be a component of leadership, the Mortgage Bankers Association ("MBA") commented, but "the attainment of steadily increasing benchmarks should not be regarded as a prerequisite for leadership."

Other commenters differed with this approach. The National Training and Information Center ("NTIC") commented that the proposed goals were "too low" and "do not ensure that the GSEs will 'lead the market' in the production of affordable housing and housing in underserved areas." NTIC stated that, although the GSEs achieved the 1993 goals, the goals and the GSEs "ha[d] not made a significant presence in these neighborhoods." The Los Angeles Housing Department argued