

that the GSEs ought to purchase "a higher percentage of mortgages than are originated by the market under each housing goal."

The GSEs' efforts to create liquidity and stability in the mortgage markets, as well as the introduction of innovative products, technology, and processes, clearly demonstrate their leadership role within the industry. These activities have strengthened the mortgage industry and increased its ability to serve homeowners and renters of all incomes throughout the country. Congress chartered the GSEs to carry out four public purposes: (1) To provide stability; (2) to respond appropriately to the mortgage markets; (3) to assist the residential mortgage market, including serving low- and moderate-income families; and (4) to promote access to mortgage credit throughout the nation. In FHEFSSA, Congress acknowledged, as does HUD, the substantial contributions the GSEs have made and continue to make in creating liquidity and stability in the overall mortgage market. However, in FHEFSSA, Congress developed a mechanism to ensure that the GSEs served lower-income families and underserved areas. HUD, through its focus on the housing goals and performance-based measurements, is carrying out that congressional intent.

Purpose of the Goals

Freddie Mac commented that HUD had premised the proposed rule on the mistaken belief that the GSEs are not fulfilling their statutory purposes. Freddie Mac asserted that its 1993 and 1994 performance under the housing goals "demonstrate[s] that Freddie Mac is strongly committed to fulfilling its obligation to serve [lower-income households and residents of specific areas]."

Both GSEs commented that a clear connection had not been established between the general housing needs of low- and moderate-income households and those needs that can be addressed by the GSEs. Freddie Mac stated that it is not a problem of availability of mortgage credit that dominates the unaddressed needs of low-income families, but a lack of sufficient incomes or subsidies to support homeownership or rental payments.

Freddie Mac expressed concern that the proposed rule was based upon a "fundamental misinterpretation" of what Congress had intended to achieve through FHEFSSA. Freddie Mac denied that FHEFSSA's passage reflected a congressional presumption that the GSEs had failed to serve lower-income

households or certain geographic areas adequately.

Both GSEs suggested that the goals amounted to using the GSEs to allocate credit. Fannie Mae also suggested that the goals were being used to assign to the GSEs the responsibility for alleviating specific housing needs. Both GSEs argued that Congress had no such intent.

The GSEs' comments that the housing goals result in credit allocation by the Secretary are difficult to understand. Congress created the GSEs and provided them federally derived benefits to achieve national housing purposes. Congress also required the establishment of explicit goals for the GSEs' purchases of mortgages financing housing for lower-income households and in communities underserved by the mortgage markets. Congress created the GSEs to develop liquidity and stability in the mortgage markets, and Congress specifically charged the GSEs to provide credit to low- and moderate-income households and to all areas. Congress clearly believed that doing so was not inconsistent with the GSEs' operation as profitmaking, shareholder-owned entities.

Criticism that HUD failed to establish a clear connection between identified housing needs and the proposed housing goals reflects a misunderstanding of the requirements placed on the Secretary by FHEFSSA. FHEFSSA directs the Secretary to establish the housing goals after analyzing a number of factors, including national housing needs. HUD's analysis, set forth in the appendices, describes the decline in homeownership rates and the loss of affordable rental stock, and provides background information on the current state of the nation's housing needs. These analyses are not designed as a blueprint for the GSEs' achievement of the housing goals. Nor do they suggest that all those needs identified can or should be met through GSE activities. These analyses do, however, set forth the bases for establishing these goals.

Credit Risk of Multifamily Purchases

Freddie Mac commented that the proposed rule had not adequately addressed the higher credit risk it might face in meeting higher housing goals. Freddie Mac claimed that it would have to purchase "significantly higher levels" of multifamily mortgages, a business with a different and higher level of risk than single-family lending. Further, Freddie Mac argued that any additional losses it might experience in order to achieve higher goals would be a direct

subsidy on the part of Freddie Mac—something not required by FHEFSSA.

HUD agrees that multifamily financing is a different business than single-family financing, posing a different level of risk. In considering the issue of credit quality in the multifamily market, HUD finds it instructive to compare the levels of activity between the two GSEs. In 1994, Fannie Mae purchased five times as many multifamily mortgages as Freddie Mac. Even after factoring in the relative sizes of the businesses of each GSE—Fannie Mae's overall dollar volume of business is about 25 percent larger than Freddie Mac's—a substantial disparity still exists. Fannie Mae's significantly greater volume of multifamily purchases has not impaired the company's financial health. Further, the economic analysis prepared for this rule does not support the argument that the goals will expose the GSEs to unacceptably high levels of credit risk. Sufficient investment-quality opportunities exist in the marketplace to allow Freddie Mac to achieve all of the housing goals without resorting to the purchase of riskier mortgages.

HUD recognizes that Freddie Mac experienced losses on its multifamily business in the late 1980s, in part because of flawed corporate oversight mechanisms, resulting in Freddie Mac's withdrawal from the multifamily market. However, half a decade has passed since that experience, providing Freddie Mac with sufficient time to develop a multifamily business. Indeed, Freddie Mac has publicly committed itself to this market. Leland Brendsel, Chairman and Chief Executive Officer of Freddie Mac, articulated the GSE's attitude toward this market segment, noting that "our re-entry into the multifamily market [is] * * * our most important next step in meeting our nation's housing needs. We are committed to having the right people, programs, and systems in place so that our multifamily mortgage purchases will be sustainable over the long term."¹⁴ HUD accepts as sincere Freddie Mac's repeated public statements and representations that it is committed to a long-term, meaningful role in the multifamily market; the housing goals take that commitment into account.

¹⁴ Prepared statement of Leland C. Brendsel before the Subcommittee on General Oversight, Investigations, and the Resolution of Failed Financial Institutions of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, April 20, 1994, pp. 4-5.