

their jurisdictions. The Secretary does not believe the more targeted approach adopted in this rule inhibits such valuable coordination. Many urban revitalization programs and reinvestment efforts, in fact, target specific neighborhoods and areas, rather than an entire city. These programs operate on the common-sense premise that targeting all areas would result in no meaningful targeting. Cities use a neighborhood-based approach, for example, in implementing their Community Development Block Grant programs, defining enterprise communities and empowerment zones, and focusing the activities of redevelopment authorities.

HUD also considered the argument that the lending industry is oriented toward market areas defined in city-wide terms. However, the lending industry does not generally approach lending activity from a city-wide perspective. Lenders generally try to achieve geographic diversification within a city, making distinctions among submarkets. Further, the efforts of lenders to comply with the Community Reinvestment Act²⁰ are clearly census-tract-based and are targeted to neighborhoods, not to all parts of a city.

Broaden Tract-Based Approach

Freddie Mac's major observation on the scope of the goal was that the definition of underserved areas should be expanded to include census tracts where: (1) the median income of families is not greater than 100 percent of the area median income; or (2) 20 percent or more of the residents in the census tracts are minority.

This alternative definition would add substantially more tracts to the goal, and these tracts have substantially lower denial rates than the tracts included under the final rule. This is noteworthy because it indicates that Freddie Mac believes that access to credit is more limited in more areas throughout the nation than does HUD. The mortgage credit denial rate for the tracts added by the Freddie Mac definition is 15 percent, which is only slightly higher than the denial rate for all metropolitan areas and is significantly less than the 21 percent denial rate in the tracts covered by the goal established in the final rule.

Freddie Mac commented further that if the Secretary increased the scope of the goal to include moderate-income

census tracts, a broad, geographically-based goal would be established, which would be consistent with the Low- and Moderate-Income Goal and Congress's intention not to "force the enterprises to 'target' to meet niche markets." HUD does not believe that the final rule's definition, which covers nearly half of all metropolitan residents, defines a niche market.

Finally, HUD notes in response to criticism that the goals overlap, that the three goals established by Congress are distinct. In contrast to the other goals, income of borrowers is not used in the Geographically Targeted Goal as a requirement, but as a proxy for those areas that are underserved by mortgage markets, based on the lower origination and higher denial rates found in low-income census tracts. The Geographically Targeted Goal does not depend on the income or minority status of the individual borrower; the location of the property determines whether units count under the goal. Some overlap, however, among the goals can be expected, given the close relationship between the purposes of serving low- and moderate-income families and promoting "access to mortgage credit throughout the Nation (including central cities, rural areas, and underserved areas) * * *."²¹ To the extent that overlap exists, the rule takes this into account, by providing that mortgage purchases may count toward each of the goals.

Modify OMB List of Central Cities

Fannie Mae suggested that HUD could exclude from the OMB "central cities" list some central cities that do not qualify, statistically, as underserved. MBA, which recognized problems with the OMB list, and the National Association of Affordable Housing Lenders recommended developing criteria for excluding well-served cities from the OMB list. A large mortgage company commented that the Secretary should use OMB's list of central cities and then add other cities that clearly have underserved needs, but are not on OMB's list. The National Association of Home Builders (NAHB) recommended that HUD develop a formula for excluding from the OMB list the higher-income cities, and then adding "underserved" areas of other central cities and certain other non-rural jurisdictions.

The Secretary has carefully considered whether modifying the OMB list of Central Cities will address the fundamental concern with continued use of the OMB definition: is it

consistent with the congressional intent to focus a portion of the GSEs' business on communities that are underserved by the mortgage markets? Modifying the OMB list to eliminate well-served cities, or retaining the OMB list and adding distressed non-central cities, does not meet this fundamental concern. In most cities, some parts are not underserved. Retaining the bulk of OMB-defined central cities would include many well-off areas that are not experiencing mortgage credit problems, and it would not appropriately focus the GSEs on those urban neighborhoods that require particular attention from the mortgage markets.

Mortgage Purchases in Nonmetropolitan Areas

The final rule provides that for properties in non-metropolitan areas, mortgage purchases will count toward the Geographically Targeted Goal where such purchases finance properties that are located in counties where: either minorities comprise at least 30 percent of the residents and the median income in the county does not exceed 120 percent of the State nonmetropolitan median income; or the median income does not exceed 95 percent of the greater of the State or nationwide nonmetropolitan median income.²²

This section of the preamble briefly discusses the nature of rural lending, describes the basic characteristics of HUD's definition of rural areas, and provides HUD's responses to comments received on the definition of rural areas.

Problems in Rural Lending

Defining "rural areas" requires a different approach than defining "central cities" and "other underserved areas" because of the lack of mortgage data in nonmetropolitan areas, differences in housing needs between urban and rural areas, and the difficulty of implementing mortgage programs at the census tract-level²³ in rural areas. As discussed in Appendix B, evaluating which rural locations are underserved in terms of access to mortgage credit cannot be done with HMDA data, on which HUD mainly relied in defining urban underserved areas. There are few conclusive studies on access to mortgage credit in rural areas, and the studies that do exist only suggest broad

²⁰ The Community Reinvestment Act, 12 U.S.C. 2901 *et seq.*, generally requires financial institutions to meet the credit needs of the communities in which the institutions are located.

²² In New England, portions of counties that are outside metropolitan areas are used in place of counties.

²³ Block Numbering Areas (BNAs) in rural areas correspond to census tracts in metropolitan areas. For the sake of simplicity, in this section this rule refers to BNAs as census tracts.

²¹ Sections 1381(a)(4) and 1382(a)(4) of FHEFSSA.