appropriate responsibility; (2) failed to identify the broad range of economic conditions which might be relevant over the coming years; (3) incorrectly assessed the past performance of the GSEs and postulated a very narrow concept of market leadership; (4) minimized the potential economic impact of higher-risk multifamily mortgage purchases and assumed the GSEs should have equal penetration of single-family and multifamily markets; and (5) used flawed data estimates for calculating the size of the conventional market for the Low- and Moderate-Income Housing Goal.[2]

1. ''Linking'' Housing Needs to GSEs

The GSEs expressed concern that HUD did not distinguish between general housing needs of low- and moderate-income households and those needs that the GSEs could reasonably be expected to address. HUD conducted an analysis of general housing needs to comply with FHEFSSA, which requires the Secretary to consider such needs when establishing the housing goals. HUD's examination of national housing needs does not suggest that the GSEs can or should meet all of those needs. Rather, the analysis was intended to provide background on the evolution and current state of the housing markets for low- and moderate-income households. HUD recognizes that the GSEs can do little to mitigate the more extreme problems, such as homelessness, identified in this analysis (Section C.1 below).

With focused effort the GSEs can assist in addressing problems discussed in the Appendix with regard to single-family and multifamily housing. On the single-family side, the GSEs support of more customized mortgage products and underwriting with greater outreach will likely have mutually beneficial effects for both investors and low- and moderate-income borrowers who have not been served with traditional products, underwriting, and marketing. The GSEs have already embarked on this path and continued efforts are encouraged.

On the multifamily side, with new product development and partnerships the GSEs can reduce the credit gaps in the current market for affordable rental housing—specifically small existing properties, redevelopment projects, housing for the elderly, and new construction in some markets. By sustaining a secondary market in units that meet the low- and moderate-income goal, the GSEs will bring increased liquidity, added stability, and ultimately lower rents for lower-income families in these segments of the market.

Moreover, the GSEs can work to improve overall efficiency and stability of the market for financing multifamily housing by promoting increased standardization, which would allow more direct links to capital markets independent of specific financial intermediaries or investors. The GSEs have been immensely successful in this area with regard to the financing of single-family housing. While HUD recognizes that multifamily finance is different from single-family finance, improvements may well be possible through, for example, creative partnerships and risk-sharing with local institutions.

2. Mortgage Market Volatility

Both GSEs expressed concern that establishing the levels of the housing goals on the basis of experience under the recent unusually favorable mortgage market conditions for financing homeownership could place unreasonable expectations on the GSEs. The GSEs commented that the market for home purchase and finance is very dynamic and susceptible to significant changes in conditions that affect whether home purchase is feasible or accessible to low- and moderate-income households. The current levels of interest rates, home prices, borrower incomes, alternative rental costs, and consumer confidence, as well as expectations about their future levels, play a role in determining whether homeownership is feasible or desirable for any particular household. HUD agrees that forecasting all these factors for upcoming years to obtain a picture of the future climate for home purchase and finance is difficult.

However, setting goals so that they can be met even under the worst of circumstances is unreasonable. If macroeconomic conditions change dramatically, then the levels of the goals can be revised to reflect the changed conditions. FHEFSSA and HUD recognize that conditions could change in ways that would require revised expectations. Thus, HUD is given the statutory discretion: (1) to revise the goals if the need arises and (2) if a GSE fails to meet a housing goal, to determine that the goal was not feasible, and not take further action. Furthermore, as discussed in Appendix D, HUD conducted detailed sensitivity analysis for each of the housing goals to reflect economic conditions that are less conducive to homeownership than those that existed during 1993 and 1994.

3. GSEs Already Innovate and Serve Low- and Moderate-Income Borrowers

The GSEs commented that Appendix A and the proposed rule failed to recognize that the GSEs already make a sizable contribution toward serving the housing needs of a wide range of American families, including low- and moderate-income households, in diverse geographic areas, through their overall operations. Congress chartered the GSEs to carry out four public purposes: (a) provide stability; (b) respond appropriately to the private capital market; (c) provide assistance to the residential mortgage market, including serving low- and moderate-income families; and (d) promote access to mortgage credit throughout the nation. In FHEFSSA, Congress developed a mechanism to ensure that the GSEs finance housing for and provide services to low- and moderate-income families and housing in underserved areas. 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. No additional measures were thought necessary to ensure that such contributions continue to take place. However, in FHEFSSA, Congress focused on enhancing the GSEs' efforts to carry out their other Charter purposes. HUD, through its focus on the goals, is carrying out that Congressional intent.

4. Multifamily Market Is Different

The GSEs commented that the origination and purchase of multifamily mortgages is fundamentally different from the origination and purchase of single-family mortgages. Both GSEs commented that the GSEs do not dominate the multifamily market to the same extent as the single-family market and that they should not be required to obtain the same multifamily market share that they have in the single-family market. Freddie Mac argued that the purchase of creditworthy multifamily loans is far more difficult than for single-family loans.

HUD agrees that the multifamily mortgage business is a different business from single-family finance, posing a different level of risk. Underwriting multifamily mortgages is more like underwriting business loans than underwriting many small and relatively uniform single-family mortgages. However, with regard to the argument that multifamily lending is much more difficult, the evidence is not convincing.

[2] The credit risk criticism is addressed in the Economic Analysis that accompanies this rule and the market share criticism is addressed in Appendix D.