demographic trends that are important for understanding mortgage markets. Most of the information, such as trends in refinancing activity, is provided because it describes the market environment in which the GSEs must operate and is therefore useful for gauging the reasonableness of specific levels of the Low- and Moderate-Income Housing Goal. In addition, the severe housing problems faced by lower-income families are discussed.

This information has led the Secretary to the following conclusions:

- The volume of mortgage originations fell from its 1993 record level of one trillion dollars to \$773 billion in 1994 and is expected to be about \$650 and \$700 billion in 1995 and 1996, respectively. Purchase mortgages, including those for first-time homebuyers, have replaced refinance mortgages as the dominant mortgage type.
- The increase in interest rates from the 25-year lows of 1993 could make it more difficult for marginal borrowers to afford homeownership. However, interest rates continue to remain lower and housing more affordable than any previous extended period since 1977. Borrowers also have been helped by the rising incomes that accompany economic growth, which helped to boost the GSEs' purchases of low- and moderate-income mortgages in 1994, beyond levels recorded in 1993.
- Purchasing a home became increasingly difficult for lower-income and younger families during the 1980s. Low-income families with children, who could most benefit from the advantages of ownership, bore the brunt of the decline in ownership rates. The share of the nation's children living in owner-occupied homes fell from 71 percent to 63 percent between 1980 and 1991.
- Very-low-income renters often must pay an unduly high share of their income for rent.
- Several demographic changes will affect the demand for housing over the next few years. The continued influx of immigrants will increase the demand for both rental and owner-occupied housing and help to offset declines due to the aging of the baby-boom generation. Nontraditional households will become more important as overall household formation rates have slowed. With later marriage, divorce, and other nontraditional living arrangements, the fastest-growing household groups will be single-parent and single-person households.
- The multifamily mortgage market is far less integrated into the broader capital markets than the single-family

market. Increased liquidity will bring more capital, at lower cost, to fill current and future credit gaps for maintenance of existing affordable stock and construction of affordable units in higher growth markets.

1. National Housing Needs

This section reviews the general housing problems of both low- and moderate-income homeowners and then discusses past and current economic conditions affecting the single-family and multifamily housing markets. HUD recognizes that the GSEs can do little to mitigate many of the more extreme problems discussed in the next sections. These sections are meant to portray the general state of the housing markets for low- and moderate-income households as they exist today and are expected to continue in the near future.

a. Housing Problems Among Low- and Moderate-Income Owners and Renters

Under the income definitions in FHEFSSA, almost three-fifths of U.S. households in 1993 qualified as low- or moderate-income families. Almost half of all homeowners (48 percent) had incomes below their (unadjusted) area median family income, while 76 percent of renters had income below their area's HUD-adjusted median family income.⁴

Housing needs vary with income. In 1993, roughly 21 percent of owners with moderate incomes (income 80 to 100 percent of area median) and 24 percent of moderate-income renters had a housing problem, compared to 25 percent of low-income owners and 36 percent of low-income renters (with income 60 to 80 percent of area median). Moreover, two-thirds of the 14 million households with incomes below 30 percent of median paid more than 30 percent of income for housing or lived in inadequate or crowded housing.⁵

b. Unmet Demands for Homeownership

Homeownership is a key aspiration for most Americans and a basic concern of government. Homeownership fosters family responsibility and selfsufficiency, expands housing choice and economic opportunity, and promotes community stability. Ownership also improves access to the larger homes and better neighborhoods particularly needed by families with children. Children of homeowners are more likely to graduate from high school, less likely to commit crime, and less likely to bear children as teenagers than children of renters.6 Recent surveys indicate that lower-income and minority families who do not own their homes will make considerable sacrifices to attain this

Ownership rates rose dramatically in the late 1940s and 1950s, increasing from 43.6 percent to 61.9 percent between 1940 and 1960. During the 1960s, homeownership rates rose more slowly, reaching 62.9 percent by 1970, and—after several years of high house price appreciation—an all-time high of 65.6 percent in 1980. In the early 1980s, historically high interest rates, low price appreciation, and a series of deep regional recessions caused the homeownership rate to decline to 63.9 percent by 1985. The rate increased only slightly between 1985 and 1994.7

During the 1980s, the goal of homeownership became more elusive for low- and moderate-income families. Declines in ownership rates during the 1980s were most pronounced for younger, lower-income households, particularly those with children:

Between 1980 and 1992, homeownership among younger households dropped roughly 10 percentage points, from 43.3 percent to 33.1 percent for households with the head aged 25 to 29, and from 61.1 percent to 50.0 percent for households with the head aged 30 to 34. These declines were concentrated among single-parent households and married couples with children.8

Homeownership rates fell by 4 percentage points each for moderate-income households and low-income households during the 1980s, and by 3 percentage points for households below 50 percent of area median, adjusted for family size. At each income

⁴HUD is required by statute to adjust median family income in developing its official income cutoffs for each Metropolitan Statistical Area (MSA) and non-metropolitan county. Income limits based on HUD-Adjusted Area Median Family Incomes (HAMFI) are adjusted 1) with upper and lower caps for areas with low or high ratios of housing costs to income; 2) by setting state nonmetropolitan average income as a floor for nonmetropolitan counties: and 3) by household size. The adjusted annual estimates of area median family income provide the base for the "50 percent" and "80 percent" of HAMFI cutoffs that are assigned to a household of four. Household size adjustments then range from 70 percent of the base for a 1-person household to 132 percent of the base for an 8person household.

⁵Tabulations of U.S. Departments of Housing and Urban Development and Commerce, *American Housing Survey for the United States in 1993* (April 1995) performed by HUD Office of Policy Development and Research.

⁶These tendencies are especially strong for lowerincome households. Children of low-income homeowners are 15 percent more likely to stay in school than children of non-homeowners. Michelle White and Richard Green, "Measuring the Benefits of Homeowning: Effects on Children," University of Chicago, unpublished paper, February 1994.

⁷The stability in ownership after 1985 resulted from increases among elderly households and single individuals, offset by further declines among families with children.

⁸ Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing*, 1993, Table A–4.