

This represented a significant increase in the low- and moderate-income percentage from an estimated 28 percent in 1992, and Fannie Mae's performance substantially exceeded the 30 percent goal established for Fannie Mae by the Secretary.⁵⁵ A further gain was recorded in 1994, as 45.4 percent of Fannie Mae's purchases qualified for the Low- and Moderate-Income Housing Goal, which was also 30 percent in 1994.⁵⁶

Freddie Mac's data for 1993 show that 30.0 percent of total units financed by its mortgage purchases were affordable

to low- and moderate-income families. There was a significant increase from an estimated 24 percent in 1992, and Freddie Mac's performance exceeded the 28 percent goal established for Freddie Mac by the Secretary. A further gain was also recorded in 1994, when 38.0 percent of total units financed by Freddie Mac's mortgage purchases qualified for the low- and moderate-income goal, which was raised from 28 percent in 1993 to 30 percent in 1994 for Freddie Mac.

Although the GSEs surpassed the low- and moderate-income goals in 1993 and 1994, approximately 50 percent of their one-unit single-family owner-occupied purchases, the bulk of their business, were secured by housing for families with incomes in excess of 120 percent of area median income, as indicated in Table A.2.⁵⁷ These results indicate that achievement of the Low- and Moderate-Income Goal in 1993 and 1994 did not impede the GSEs from buying many mortgages on properties purchased by higher-income families.

TABLE A.2.—DISTRIBUTION OF DWELLING UNITS IN GSE SINGLE-FAMILY OWNER-OCCUPIED 1-UNIT PURCHASES BY INCOME CLASS OF MORTGAGOR, 1993–1994

Income of mortgagor(s) relative to area median income (%)	Fannie Mae, 1993 (%)	Fannie Mae, 1994 (%)	Freddie Mac, 1993 (%)	Freddie Mac, 1994 (%)
0–60	6.8	8.8	6.2	6.8
60–80	11.3	13.2	10.8	11.3
80–100	15.0	16.5	14.9	15.2
100–120	15.4	15.8	15.6	16.0
> 120	51.5	45.7	52.5	50.7
Total	100.0	100.0	100.0	100.0

4. Size of the Conventional Conforming Mortgage Market Serving Low- and Moderate-Income Families Relative to the Overall Conventional Conforming Market

The low- and moderate-income share of the mortgage market is estimated to be 48–52 percent. Appendix D presents in detail the underlying analysis for this estimate.

5. GSEs' Ability to Lead the Industry

FHEFSSA requires the Secretary to consider the GSEs' ability to lead the market in determining the level of the Low- and Moderate-Income Goal. The GSEs' ability to lead the industry depends on their dominant role in the mortgage market, their ability—through their underwriting standards and new programs and products—to influence the types of loans that private lenders are willing to make, their utilization of cutting edge technology, their highly competent and well-trained staffs, and their financial resources.

a. Dominant Role in Market

The GSEs purchased 71 percent of all conventional conforming single-family mortgages in 1993—up from 15 percent in 1980, 34 percent in 1985, 50 percent in 1991, and 64 percent in 1992.⁶³ The GSEs' share of the relevant market fell to 55 percent in 1994. This was due in part to the increase in the adjustable rate mortgage (ARM) share of the mortgage market, from 20 percent in 1993 to 39 percent in 1994.⁶⁴ However, the GSEs' market share in 1994 exceeded that in all years except 1992 and 1993.

Most of the mortgages purchased by the GSEs are securitized, but sizable amounts are held in portfolio—in fact Fannie Mae and Freddie Mac have the first- and fourth-largest mortgage portfolios, respectively, of all mortgage holders in the United States. The GSEs now hold or securitize about 30 percent of the total dollar volume of mortgages outstanding, compared to about 7 percent in 1980, and they have accounted for over 40 percent of the net increase in mortgages outstanding

between 1980 and 1992 and over 70 percent of the net increase between 1989 and 1992.⁶⁵

The dominant position of the GSEs is reinforced by their relationship to other market institutions. Banks and savings and loans are both their competitors and their customers—they compete as portfolio lenders, but at the same time they sell mortgages to the GSEs and buy mortgage securities from them, and also buy the debt securities that the GSEs use to finance their portfolios.

b. Set Underwriting Standards for Market

The GSEs' underwriting guidelines are followed by virtually all mortgage originators, including lenders who do not sell many of their mortgages to Fannie Mae or Freddie Mac.⁶⁶ The guidelines are also commonly followed in underwriting "jumbo" mortgages, which exceed the maximum principal amount which can be purchased by the GSEs (the conforming loan limit), because such mortgages eventually

⁵⁵ Some mortgage purchases are not eligible for inclusion under the low- and moderate-income goal, such as federally guaranteed mortgages, mortgages on second homes, and mortgages originated prior to January 1, 1993 that were missing relevant borrower income or rent data. Such mortgages were excluded from both the numerator and the denominator in calculating the performance under this goal. These exclusions amounted to 14 percent of Fannie Mae's purchases and 9 percent of Freddie Mac's purchases.

⁵⁶ A portion of the increase from 1993 reflects a decline in the share of refinancings, which have

been less common among low- and moderate-income families.

⁵⁷ Cases with missing data have been excluded from the table.

⁶³ Estimates provided by Fannie Mae's Economics Department.

⁶⁴ Federal Housing Finance Board, "Rates & Terms on Conventional Home Mortgages," Annual Summary, 1994, Table 3. ARMs present less interest rate risk to lenders than fixed-rate mortgages, and therefore are more likely to be retained in portfolio.

⁶⁵ John C. Weicher, "The New Structure of the Housing Finance System," *Federal Reserve Bank of St. Louis Review*, July/August 1994, pp. 51–52.

⁶⁶ The underwriting guidelines published by the two GSEs are not identical, but they are very similar in most aspects. And since November 30, 1992, Fannie Mae and Freddie Mac have provided lenders the same Uniform Underwriting and Transmittal Summary (Fannie Mae Form 1008/Freddie Mac Form 1077), which is used by originators to collect certain mortgage information that they need for data entry when mortgages are sold to either GSE.