low- and moderate-income families. These households, particularly those with very-low-incomes, are burdened by high rent payments and will likely continue to face serious housing problems, given the dim prospects for earnings growth in entry-level occupations.

With respect to homeownership, many younger, minority, and lowerincome families did not become homeowners during the 1980s due to the slow growth of earnings, high real interest rates, and continued house price increases. Recently, low interest rates and low inflation have improved affordability conditions and first-time homeowners have become a major driving force in the home purchase market. A large pent-up demand for homeownership exists on the part of low-income families closed out of the market during the 1980s, particularly families with children in need of larger units and better neighborhoods.

Several demographic changes will strain the housing finance system during the 1990s. The continued influx of immigrants will increase demand for both rental and owner-occupied housing. Non-traditional households have become more important as overall household formation rates have slowed. With later marriages, divorce, and non-traditional living arrangements, the fastest growing household groups are single-parent and single-person households.

The multifamily mortgage market is far less integrated into the broader capital markets than is the single-family market. The GSEs do not dominate the multifamily secondary mortgage market as they do the single-family market, and they may never dominate the multifamily market to this extent—multifamily loans are more complex than single-family mortgages, and because of the large size of the component loans, multifamily mortgage pools are more difficult to diversify. Portfolio lending may remain a greater factor in multifamily markets.

Current market conditions indicate that the supply of multifamily mortgage credit is adequate for amenity-rich, suburban garden style apartments. However, credit gaps do exist, particularly with regard to the maintenance of the existing affordable stock and construction of affordable units in higher growth markets. Increased liquidity can make investments in affordable multifamily housing more attractive to all investors, including portfolio lenders, which would bring more capital at lower cost to fill current and future multifamily credit gaps. The GSEs' active

participation in the market can lead to this needed increase in liquidity.

## 2. Past Performance and Ability to Lead the Industry

The GSEs have been assisting the overall secondary market, increasing their share of purchases of conventional conforming single-family mortgage origination from 42 percent in 1989 to 70 percent in 1993 before dropping to 55 percent in 1994. In fact, most industry observers would agree that the recent growth in the secondary market was the reason the decline of the thrift industry had only minor effects on the nation's housing finance system.

The GSEs' performance on the lowand moderate-income goal has also been improving. Fannie Mae's performance increased from 34.3 percent in 1993 to 45.4 percent in 1994. Freddie Mac's performance also increased from 30.0 to 38.0 percent during this period.

Single-family Market. The Secretary is concerned about the GSEs' assistance to the lower-income end of the market. Figure A.1 presents the distribution of the GSEs' single-family mortgage purchases by income category. In 1994, homeowners with incomes less than 60 percent of median represented roughly 7 percent of GSE purchases, and those with incomes less than 80 percent of median represented no more than 19 percent of GSE purchases. Families with incomes over 120 percent of median, on the other hand, accounted for approximately 50 percent of singlefamily mortgages purchased by the

While the GSEs have improved their performance, they continue to purchase a smaller proportion of mortgages for very-low-income homebuyers than do portfolio lenders operating in the conforming market. According to the AHS, about 10 percent of conforming loans were originated for very-lowincome homebuyers in 1993, compared to about 5 percent of GSE purchases in 1993. Figure A.2 uses HMDA data to compare the GSEs with the non-GSE portion of the conforming market. In 1993 and 1994, very-low-income loans accounted for a higher percentage of the business of portfolio (non-GSE) lenders than they did of GSE business. The 1993 and 1994 HMDA data suggest that there is room for the GSEs to improve their performance in purchasing loans at the lower-income end of the market.

Moreover, there is evidence that there is a significant population of potential homebuyers who might well respond to aggressive outreach. As mentioned above, both Fannie Mae and the Joint Center expect immigration to be a major source of future homebuyers.

Furthermore, analysis by The Urban Institute indicates the existence of a large untapped potential. Indeed, the GSE's recent experience with new outreach and affordable housing initiatives is important confirmation of this potential.

Multifamily Market. The Secretary is particularly concerned about the level of Freddie Mac's activity in the multifamily area. In 1994, Freddie Mac purchased \$913 million in multifamily mortgages, which was an increase over its purchase of \$191 million in 1993. Given the affordability problems faced by renters and the need for a wellfunctioning secondary market for multifamily loans, it is imperative that Freddie Mac's multifamily business be increased. By sustaining a secondary market in units that meet the special affordable goal, the GSEs will bring increased liquidity, added stability, and ultimately lower rents for lower-income families in these segments of the market. In addition, their promotion of increased standardization in multifamily finance would allow for more direct links to capital markets and improve overall market efficiency and stability. The 1996 and 1997-99 goals are intended to encourage a minimum level of multifamily activity by Freddie

## 3. Market Feasibility and Changing Market Conditions

As detailed in Appendix D, the lowand moderate-income mortgage market is quite large, accounting for 48 to 52 percent of dwelling units financed by conventional conforming mortgages. Figure A.3 compares recent GSE performance, the 1996 and 1997-1999 goals, and the size of the low- and moderate-income market. Having considered the projected market and economic and demographic conditions for 1996-1999 and the GSEs' recent performance, HUD has determined that goals for low- and moderate-income purchases of 40 percent for 1996, 42 percent for 1997-1999, and 42 percent thereafter pending establishment of a new goal, are feasible.

In estimating the size of the market, HUD also used assumptions about future economic and market conditions that were less favorable than those that existed over the last two years. HUD is well aware of the volatility of mortgage markets and the possible impacts on the GSE's ability to meet the housing goals. Should conditions change such that the goals are no longer reasonable or feasible, the Secretary has the authority to revise the goals.