## 4. The Ability of the Enterprises to Lead the Industry in Making Mortgage Credit Available for Low-Income and Very-Low-Income Families

The discussion of the ability of Fannie Mae and Freddie Mac to lead the industry in Section C.5 of Appendix A is relevant to this factor-the GSEs' dominant role in the market, their role in establishing widely-applied underwriting standards, their role in the development of new technology for mortgage origination, their strong staff resources, and their financial strength. Additional analysis on the potential ability of the enterprises to lead the industry in the low- and very-lowincome market appears below-in Section D.2 generally, and in Section D.3 with respect to multifamily housing.

The ability of the GSEs to lead the industry in the special affordable market is best demonstrated by the significant gains both enterprises have made in this market. As a percentage of total units in the properties whose mortgages they purchased, the special affordable share for the GSEs combined rose from 7.7 percent in 1993 to 13.9 percent in 1994 and 16.4 percent for the first half of 1995. The 1994 increase was truly impressive, as special affordable units rose by 6 percent while total units declined by 41 percent.

# 5. The Need to Maintain the Sound Financial Condition of the GSEs

HUD has undertaken a separate, detailed economic analysis of this rule, which includes consideration of the financial safety and soundness implications of the housing goals. The analysis considered the likely mortgage default implications of the goals and implications for the profitability of the GSEs under various alternative economic assumptions. Among the conclusions are: that the goals will have, at most, only limited impacts on credit risk, which the GSEs should be able to handle without significant lowering of underwriting standards; that risks associated with increased multifamily mortgage purchase volumes under the goals are manageable, considering the scope of the increases implied by the goals; and that the goals imply no meaningful increase in risk to the sound financial condition of the GSEs' operations. Based on this analysis, HUD concludes that the goals raise minimal, if any, safety and soundness concerns.

#### D. Determination of the Goal

Several considerations, many of which have been reviewed in earlier sections of this Appendix, led to the determination of the Special Affordable Housing Goal.

### 1. Severe Housing Problems

The data presented in Section C.3 demonstrate that housing problems and needs for affordable housing are much more pressing in the lowest-income categories than among moderate-income families. The high incidence of severe problems among the lowest-income renters reflects severe shortages of units affordable to those renters. At incomes below 30 percent of median, two-thirds of owners and 70 percent of renters pay more than 30 percent of their income for housing, live in inadequate housing, or are crowded. As the analysis presented above shows, priority problems-paying more than half of income for housing or living in severely inadequate housing—are heavily concentrated among renters with incomes below 50 percent of median. Housing and affordability problems are particularly acute for renters with income below 30 percent of area median income.

#### 2. GSE Performance and the Market

The Special Affordable Housing Goal is designed, in part, to ensure that the GSEs maintain a consistent focus on serving the very-low-income portion of the housing market where housing needs are greatest. The bulk of the GSEs' low- and moderate-income mortgage purchases are for the higher-income portion of the low- and moderateincome category. The lowest-income borrowers accounted for a very small percentage of each GSEs' purchases. Five percent of the GSEs' 1993 mortgage purchases financed homes for singlefamily homeowners with incomes below 60 percent of area median, and 7 percent in 1994. (See Figure A.1 in Appendix A.)

*Specification of the goal.* The Special Affordable Housing Goal is established as percentages of the GSEs' total

business for the 1996-99 period. This kind of specification is preferable to a fixed, dollar-based specification because: (1) The size of the market for housing eligible to count toward the Special Affordable Housing Goal fluctuates with the size of the overall market rather than remaining at any fixed dollar level (as shown by analysis of HMDA data); and (2) fixed-dollar goals, if based on a high-volume year, could be unattainable in a low-volume year; if based on a low-volume year, could represent insufficient support by the GSEs for the special affordable market in a high-volume year; and if based on an average-volume year, could alternate between being unattainable in some years and insufficient in other years.

*GSEs' Performance Relative to the Market.* Analysis of American Housing Survey and HMDA data shows that the GSEs are purchasing a smaller proportion of loans for very-low-income homebuyers than are portfolio lenders operating in the conforming market (see the discussion of Figure A.2 in Appendix A). That analysis suggests that there is room in the very-lowincome end of the homebuyer market for the GSEs to improve their performance.

A reasonable estimate of the size of the market for both single family and multifamily mortgages that would be eligible to count toward the Special Affordable Housing Goal is 20–23 percent of the overall conventional conforming market, as explained in Section H.2 of Appendix D.

Under the final rule's counting conventions 16.7 percent (7.9 percent owner-occupied and 8.8 percent rental) of units covered by Fannie Mae's mortgage purchases in 1994 would have been eligible to count toward this goal, and 11.4 percent (7.1 percent owneroccupied and 4.3 percent rental) of units covered by Freddie Mac's mortgage purchases would have been eligible to count toward this goal. Figure C.1 compares recent GSE performance, the 1996 and 1997–99 Special Affordable Housing Goals, and the size of the market.

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