3. Multifamily Purchases

The GSEs can bring an important benefit to the multifamily market in the form of long-term liquidity. In the multifamily arena, however, a secondary market is only in its infancy (see Section C.2.c in Appendix A). Given the GSEs' overall experience and financial strength, it is reasonable to expect that they would play major roles in this development.

Recent tightening of interest rate spreads for ''better'' multifamily mortgage originations demonstrates that increased liquidity can lower spreads. This suggests that participation by the GSEs can lower financing costs and ultimately rents across the broad range of multifamily properties, including properties occupied by low- and very-low-income tenants. (Section C.2.c of Appendix A elaborates on these themes.)

A minimum multifamily special affordable volume of 0.8 percent of total 1994 volume of business is reasonable, both relative to the size of the market and relative to the GSEs' recent volume of qualifying multifamily purchases. The implied volumes are $950 million for Freddie Mac (relative to $118.8 billion total volume) and $1.22 billion for Fannie Mae (relative to $153.0 billion total volume). Their 1994 volumes of multifamily business that would have qualified as special affordable under this final rule were $425 million for Freddie Mac (0.36 percent of 1994 business), or half of the necessary volume for 1996, and $1.91 billion for Fannie Mae (1.25 percent of 1994 business), or $690 million more than necessary for 1996. The size of the total multifamily market that would qualify under the Special Affordable Housing Goal is approximately $10 billion annually.

Expressing the multifamily subgoals for every year covered by this rule as percentages of total 1994 purchases is a reasonable approach, since multifamily subgoals expressed as percentages of current-year total business could be difficult to achieve in some years. Total volume is driven by the single-family business, which is subject to wide swings due to refinancing waves, as in 1992–93, and to changes in the ARM share of the market.

The Secretary selected 0.8 percent of total 1994 business volume after careful review of the GSEs' past performance and consideration of the need to maintain a minimum level of attention to multifamily housing. This percentage may seem small, but that is because the multifamily market (measured in dollar terms) comprises only a fraction of the total mortgage market, and the special affordable share of the GSEs' multifamily purchases in 1994 was just above 50 percent.[11] For this same reason, changes in this subgoal of even 0.1 percent are significant.

These subgoals are below recent levels of special affordable multifamily purchases by Fannie Mae, but above recent levels of such purchases by Freddie Mac. It should be emphasized that these are minimum purchase amounts; thus HUD in no way is encouraging Fannie Mae to reduce its volume of multifamily business, which is important in its overall efforts to meet the Special Affordable Housing Goal and Low- and Moderate-Income Housing Goals. HUD very much supports Freddie Mac's actions to rebuild its multifamily business, and encourages further efforts in this area. To date Freddie Mac has had no delinquencies on its multifamily business since it reentered this market, and the GSE's multifamily business has been creditworthy and profitable.[12]

4. Conclusion

HUD has determined that the Special Affordable Housing Goal established in the final rule addresses national housing needs within the income categories specified for this goal, while accounting for the GSEs' performance in the past in purchasing mortgages meeting the needs of very-low-income families and low-income families in low-income areas. HUD has also considered the size of the conventional mortgage market serving very-low-income families and low-income families in low-income areas. Moreover, HUD has considered the GSEs' ability to lead the industry as well as their financial condition. HUD has determined that goals of 12 percent in 1996, 14 percent in 1997–1999, and 14 percent thereafter pending establishment of a new goal, with fixed multifamily subgoals of 0.8 percent of 1994 volumes of business, are both necessary and achievable.

Appendix D—Estimating the Size of the Conventional Conforming Market for Each Housing Goal

In establishing the three housing goals, the Secretary is required to assess, among a number of factors, the size of the conventional market for each goal. This Appendix explains HUD's methodology for estimating the size of the conventional market for each of the three housing goals. Section A provides an overview of public comments on the methodology described in the proposed rule. Section B describes the main components of HUD's market-share model and identifies those parameters that have a large effect on the relative market shares. Sections C and D discuss two particularly important market parameters—the size of the multifamily market and the share of the single-family mortgage market accounted for by rental properties. With this as background, Section E provides a more systematic presentation of the model's equations and main assumptions. Sections F, G, and H report HUD's estimates for the Low- and Moderate-Income Goal, the Central Cities, Rural Areas, and other Underserved Areas Goal, and the Special Affordable Housing Goal, respectively.

A. Overview of Comments on Market Methodology

1. Overall Issue

Both GSEs expressed strong criticism of HUD's use of specific data elements in constructing its estimates of market size. Although both GSEs criticized how data had been interpreted in the proposed rule's market share model, neither GSE, nor any commenter, objected to HUD's basic model for calculating the size of the markets relevant to each of the goals. However, Freddie Mac presented a detailed set of objections to the use of certain data sources or assumptions, concluding that HUD's market estimates were ''fatally flawed.'' Freddie Mac commented that ''the Proposed Rule uses a combination of data sources and a set of arbitrary assumptions in order to estimate the size of the current conforming, conventional market,'' adding that ''in nearly every case, HUD has chosen an estimate at the highest end of calculable estimates.''

Freddie Mac proposed a number of revisions to the assumptions or data sets used in the proposed rule, for example—using HMDA data to estimate the size of the multifamily and single-family rental markets, using American Housing Survey rent data on recently-completed properties to estimate the affordability of the newly-mortgaged rental properties, using discount factors to reduce the size of the rental and low-income owner markets, etc. HUD has carefully considered these comments in revising the market estimates for each of the goals. However, HUD disagrees with Freddie Mac's overarching comment that because data are not always available in the form and format desired, HUD should use minimal estimates of market activity. Such an

[11] Multifamily properties account for a much higher percentage of dwelling units financed by mortgages than their percentage of total dollar mortgage volume.

[12] *American Banker*, October 12, 1995, p. 12.