

information about the size of the multifamily market in detail. They supported HUD's projections of the size of the market, and at least one of their analyses suggested that higher estimates were reasonable. They concluded that the HMDA data base underreports multifamily originations. Details are presented in section C.2, below.

(B) In its sensitivity analyses, HUD has used lower estimates of the size of the multifamily market than the base case in the proposed rule.

Section C below provides a more detailed response to the GSEs' comments about the size of the multifamily market.

(3) Size of the single-family rental market. Freddie Mac stated that HUD's use of the Survey of Mortgage Lending Activity (SMLA) caused it to overstate the size of the single-family rental market, arguing that a more accurate estimate is derived from HMDA.

HUD response. HUD did not use the SMLA to estimate the rental share of the single-family market—rather, it closely analyzed data from the Residential Finance Survey (RFS) and the HMDA reports. In its base case HUD projected the investor share of the single-family market at 10.0 percent, well below the 17.3 percent reported by the RFS, but slightly above the 8.0 percent reported by the 1994 HMDA data. Again, the Urban Institute researchers concluded that the HMDA estimate was too low and a 10–12 percent estimate was reasonable. At the same time, HUD has acknowledged that there is some uncertainty about the rental share of the single-family market, and has reflected this in its sensitivity analyses (Table D.3).

(4) Multifamily market penetration. Fannie Mae stated that the multifamily lending industry is fundamentally different from the single-family industry and that the GSEs do not dominate the multifamily market to the degree that they dominate the single-family market. Fannie Mae concluded that “origination volumes in multifamily lending are not a reliable indicator of what is available to either Fannie Mae or Freddie Mac in the secondary market.” Freddie Mac concurred with this view.

HUD response. The GSEs are able to purchase loans from any multifamily lender. Explicitly considering only multifamily loans originated by certain lenders in the estimate of market size would implicitly amount to intervention in the GSEs' mortgage purchase decisions, and be tantamount to “micromanagement” of the GSEs' operations, which both HUD and the GSEs wish to avoid. (Appendix A

discusses HUD's response to this issue in more detail.)

At the same time, HUD realizes that the GSEs have been and are likely to continue to be less active in the multifamily market than in the single-family market. It is also true that multifamily originations play a significant role in estimating the size of the Low- and Moderate-Income and Special Affordable Housing Goals. For these reasons, both of these goals have been conservatively set in relation to HUD's estimates of the size of these markets, including all multifamily originations.

Other Issues

(5) Distortions caused by mobile home loans in the HMDA data. Fannie Mae commented that the HMDA data used in HUD's analysis included mobile home loans, which “are an important source of affordable housing for low- and moderate-income families, but which are not a significant product line for either Fannie Mae or Freddie Mac,” adding that if mobile home originations are eliminated, “the amount of mortgages meeting this [low- and moderate-income] goal available to Fannie Mae and Freddie Mac is significantly reduced.” Freddie Mac was in general agreement with this view.

HUD response. HUD has undertaken discussions with industry representatives and mobile home lenders and has examined the effects of adjusting the HMDA data for mobile homes.⁶ However, as Section F discusses in detail, it is not clear how many mobile home loans are included in the HMDA data. Thus, HUD also uses American Housing Survey data that does not include mobile homes. To a certain extent, HUD had anticipated this issue in its proposed rule by excluding small loans from its analysis of HMDA data.

(6) American Housing Survey (AHS) data on housing affordability. Freddie Mac stated that HUD's use of the AHS led to an overstatement of housing affordability, because “it is well known that income reported in the AHS [is] lower than other independent estimates of income.”

HUD response. This issue requires distinguishing between owner-occupied and rental units using special 1990 Census tabulations. HUD compared data on household income to official HUD

estimates of area median income for each location in the country. These Census tabulations should be more accurate than the AHS in two ways—because the Census income data are better, and because the Census income data were compared to accurate median family income data for each metro area or nonmetro county in the country. The AHS estimates of the income of very-low-, low-, and moderate-income homeowners are about two percentage points higher than the corresponding Census data. However, these comparisons fail to take into account the changes which were made in the AHS in 1993, which has reduced income underreporting by the AHS. (See Section F.1.c below.) Thus, it appears that income underreporting is not a serious problem with the recent AHS data. As noted above, one advantage of the AHS data is that it excludes mobile home loans.

The Census tabulations show that the AHS and the Census data are remarkably similar with regard to renters' incomes. But the Department used rent data, not income data, in measuring affordability of rental units. The AHS asks more questions about rent components than any other survey and it is the only source of information on gross rent (contract rent plus the cost of utilities), thus it is the best source of information about rents.

(7) Use of rent levels inflates rental housing importance. Freddie Mac stated that the proposed rule uses rent levels to qualify rental units as serving low- or moderate-income levels. They added that “This is reasonable, but has the effect of increasing the importance of rental housing in meeting goals,” because “many higher income households live in lower cost rental units.”

HUD response. It is true that many higher-income households live in lower-rent units, but this is irrelevant. If the GSEs undertook a concerted effort to gather comprehensive data on renter income, as allowed (but not required) by the FHEFSSA, HUD would base its low- and moderate-income rental share on renters' income data. But in fact both GSEs have repeatedly said that data on tenant income is not generally available, and HUD has therefore allowed the GSEs to use data on rents in determining affordability. To be consistent with this practice, HUD has used rents in estimating the size of the market related to the various goals. This procedure does not inflate the importance of rental housing relative to what is available for purchase by the GSEs.

⁶These adjustments involved identifying all loans originated by four mobile home lenders, examining borrower income data for these loans, extrapolating from this data to estimate the size of the total mobile home market by income level in the HMDA data, and deducting the resulting estimates from the HMDA data.