

census tract locations for metropolitan areas. Unfortunately, it provides no information on the incomes of renters living in mortgaged properties (either single-family or multifamily) or on the affordability of rental units in mortgaged properties. The AHS, however, does provide a wealth of information on the affordability of rental properties. Thus, an important issue here concerns whether affordability data from rental properties can serve as a proxy for the affordability of newly-mortgaged rental properties. This issue as well as other technical issues related to the goal percentages (such as the need to exclude mobile homes from HMDA data) are discussed in Sections F, G, and H.

4. Conclusions

HUD has attempted to reduce the range of uncertainty around its market estimates by carefully reviewing all known major mortgage data sources and by conducting numerous sensitivity analyses to show the effects of alternative assumptions. The remainder of this Appendix reports findings from the additional analyses that HUD has conducted in response to public comments received. Sections C, D, and E report findings related to the property share distributions called for in Step 1, while Sections F, G, and H report findings related to the goal-specific market parameters called for in Step 2. These latter sections also report the overall market estimates for each housing goal calculated in Step 3.

HUD contracted with the Urban Institute to comment on the reasonableness of its market share approach and to conduct analyses related to specific comments received from the public about its market share methodology. Findings from several Urban Institute reports will be discussed throughout this Appendix.

C. Size of the Multifamily Mortgage Market

This section derives projections of multifamily mortgage originations, in dollars and in numbers of units in mortgaged properties.

The multifamily sector is especially important in the establishment of housing goals for Fannie Mae and Freddie Mac because multifamily properties are overwhelmingly occupied by low- and moderate-income families. For example, in 1994 11 percent of units financed by Fannie Mae were multifamily, but 93 percent of those units were low- and moderate-income units, accounting for 23 percent of all of Fannie Mae's low- and moderate-income purchases for that year.

This discussion is organized as follows: Section 1 reviews the proposed rule's approach to multifamily market estimation, the public comments on the methodology, and HUD's approach to resolve various questions raised. Section 2 identifies and evaluates available historical data resources. Section 3 undertakes an analysis of projected aggregate origination volume for 1996 and 1997 for the entire multifamily market and then considers the portion of the market relevant as a basis for establishing housing goals for Fannie Mae and Freddie Mac.

1. The Proposed Rule, Public Comments, and HUD's Approach to Resolving Issues Raised

Proposed rule. The proposed rule presented two projections of the size of the multifamily market. The first, based on the Bureau of the Census's 1991 Survey of Residential Finance (RFS), was \$35 billion of conventional multifamily originations, which was projected to be 7 percent of the total dollar volume of conventional originations. The second, based on HUD's Survey of Mortgage Lending Activity (SMLA), was \$33 billion of conventional multifamily originations, which was projected to be 5 percent of the total dollar volume of conventional originations.

Public comments. Both GSEs maintained that in deriving market-share estimates for all three of the statutory goals, HUD had made projections of the size of the multifamily market that were unreasonably high. They claimed that HUD had chosen the poorest and least-favorable of the data bases that could have been employed for this purpose.

The following points were made by the GSEs in support of this general criticism:

a. HUD's reliance on the Survey of Mortgage Lending Activity (SMLA): The GSEs commented that this survey's estimates of multifamily lending volumes in the early 1990s are based on data for a sample of commercial banks that is known to be out-of-date and too small, yet this survey is the one on which HUD relied most heavily.

b. HUD's use of the Residential Finance Survey (RFS): The GSEs commented that HUD used mortgage assumptions data that should have been excluded in estimating mortgage origination volumes; that HUD improperly ignored the nature of RFS as a survey of outstanding mortgages still outstanding after a period of time had passed since their origination and did not adequately allow for differential prepayment rates between multifamily

and single-family mortgages over that passage of time; that HUD had relied on RFS data for mortgages originated over a longer-than-necessary time interval (1987–1991, when 1989–91 could have been used); that HUD had not recognized the decline in origination rates that occurred in the early 1990s, after the end of the period reflected in RFS and after a period of turmoil in the market in 1990–91; that HUD had failed to recognize that originations in 1990–91 included significant numbers of multifamily loan restructurings that would have been reported as new loans in RFS (as well as SMLA) but would not have been available for GSE purchase.

c. HUD's neglect of evidence on the multifamily market in the Home Mortgage Disclosure Act (HMDA) data base: The GSEs stated their belief that HMDA covers nearly 100 percent of the relevant lender base; and that commercial banks are known to file HMDA reports reliably, making this a better source of information on banks than SMLA. As a general matter, Fannie Mae and Freddie Mac contended that the HMDA figure for 1993 mortgage originations is the more accurate one, based on what they understood to be methodological deficiencies in SMLA and limited applicability of RFS.

Activities to resolve issues. HUD contracted with the Urban Institute for a wide-ranging evaluation of data sources and exploration of factors that could potentially affect multifamily originations in the next few years. This work included analyses of RFS, SMLA, and HMDA data, investigations of the methodologies used to construct these three data sources, and discussions with knowledgeable individuals in the lending community. This was supplemented by HUD in-house analyses of RFS, HMDA, SMLA, and GSE data on multifamily volumes. In addition, HUD convened two meetings with experts involved in the collection and compilation of RFS, SMLA, and HMDA data and other experts on mortgage originations. HUD also organized a discussion of affordable multifamily development and the secondary market involving a diverse group of lenders, with Urban Institute researchers. Representatives of Fannie Mae and Freddie Mac were present at all of these meetings. The results of these analyses are summarized below.

2. Multifamily Origination Volumes, 1987–1994

The principal sources of evidence on historical multifamily origination volumes are RFS, SMLA, and HMDA. RFS data show the aggregate face value of mortgage loans by year of origination