Comparison with the RFS. The Residential Finance Survey is the only mortgage data source that provides unitbased property distributions similar to those reported in Table D.3. Based on RFS data for 1987 to 1991, HUD estimated that, of total dwelling units in properties financed by recently acquired conventional conforming mortgages, 56.5 percent were owner-occupied units, 17.9 percent were single-family rental units, and 25.6 percent were multifamily rental units.39 Thus, the RFS presents a much lower owner share than does HUD's model. This difference is due mainly to the relatively high level of multifamily originations during the mid- to late-1980s, which is the period covered by the RFS.40

## 3. Sensitivity of Property Distributions to Changes in Other Model Parameters

The multifamily and single-family rental markets are not the only areas where some degree of uncertainty exists about their magnitudes. HUD examined the sensitivity of the property distributions given in Table D.3 to changes in several other model parameters. Most of these sensitivity analyses will be reported when discussing the market estimates for each of the housing goals. Suffice it to say here that any changes that reduce the owner category—such as reducing the overall level of single-family origination activity or raising the per unit loan amounts for single-family mortgages—tend to increase the market estimates for each of the housing goals. This occurs because the goal

percentages for owner mortgages are lower than those for rental housing.

## F. Size of the Conventional Conforming Mortgage Market Serving Low- and Moderate-Income Families

This section estimates the size of the low- and moderate-income market by applying low- and moderate-income percentages to the property shares given in Table D.3. This section essentially accomplishes Steps 2 and 3 of the three-step procedure discussed in Section B.

Technical issues and data adjustments related to the low- and moderate-income percentages for owners and renters are discussed in the first two subsections. Then, estimates of the size of the low- and moderate-income market are presented along with several sensitivity analyses. Based on these analyses, HUD concludes that 48–52 percent is a reasonable estimate of the mortgage market's low- and moderate-income share for 1996 and 1997. It is assumed that similar shares will exist following 1997.

The final rule establishes the Lowand Moderate-Income Goal for 1996 at 40 percent of the total number of dwelling units financed by the GSE's mortgage purchases for 1996. The level of the goal for 1997 and subsequent years is 42 percent of each year's mortgage purchases.

1. Low- and Moderate-Income Percentage for Single-Family Owner Mortgages

## a. HMDA Data

The most important determinant of the low- and moderate-income share of the mortgage market is the income distribution of single-family borrowers. HMDA reports annual income data for families living in metropolitan areas who purchase a home or refinance their existing mortgage.<sup>41</sup> Table D.4 gives the percentage of mortgages taken out by low- and moderate-income families for the years 1992, 1993, and 1994. For each year, an unadjusted low- and moderate-income percentage is reported as well as one based on the adjustments that HUD made in its proposed rule, that is, excluding loans less than \$15,000 and excluding loans where the loan-to-income ratio was greater than six.<sup>42</sup> The additional adjustments reported for 1993 and 1994 will be discussed below.

Table D.4 also reports similar data for very-low-income families (that is, families with incomes less than 60 percent of area median income). These data will be used in Section H to estimate the special affordable mortgage market.

Two trends in the income data should be mentioned. First, the percentage of borrowers with less than area median income has increased significantly over the past three years-borrowers with less than median income increased from 33.5 percent of the home purchase market in 1992 to 42.6 percent of that market in 1994. This jump in lowincome lending has been attributed to historically low interest rates during this period and to affordable lending initiatives and outreach efforts on the part of lenders, private mortgage insurers, and the GSEs. Second, the characteristics of borrowers refinancing mortgages appears to have changed between 1993 and 1994. During the refinancing waves of 1992 and 1993, refinancing borrowers had much higher incomes than borrowers purchasing homes. But during 1994 these two groups exhibited practically the same income distributions.

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particular problem for this section's analysis of owner incomes.

 $<sup>^{\</sup>rm 39}$  Restricting the RFS analysis to 1991 resulted in only minor changes to the market shares.

<sup>&</sup>lt;sup>40</sup> Between 1987 and 1991, annual multifamily mortgage originations averaged \$32 billion, representing 7.2 percent of conventional mortgage originations. In 1994, conventional multifamily originations stood at \$30 billion but because of the increase in single-family originations since the late 1980s, the multifamily share of total originations had dropped to 4.5 percent. In HUD's projection model, the \$30 billion in multifamily originations represents 4.9 percent of total conventional originations for 1996.

<sup>&</sup>lt;sup>41</sup> As noted earlier, HMDA data are expressed in terms of number of loans rather than number of units. In addition, HMDA data do not distinguish between owner-occupied one-unit properties and owner-occupied 2–4 properties. This is not a

<sup>&</sup>lt;sup>42</sup>The purpose of the first adjustment was to drop from the analysis small loans (such as mobile home loans) which the GSEs do not typically purchase; the purpose of the second adjustment was to cleanse the data base of outliers and likely coding errors. As discussed below, a more direct adjustment for mobile homes is made in this final rule.