a. Purchases of Seasoned Mortgages

Both GSEs buy a number of seasoned mortgages, where the date of the mortgage note is more than one year before the date the GSE purchased the mortgage. HUD's market share estimates are based on current mortgage originations, thus there is no way for HUD to take into account the availability of seasoned mortgages. But many such mortgages would qualify for one or more of the goals.

b. Small Second Loans

The final rule will allow the GSEs to count second mortgages for full credit toward the housing goals. In 1993, the GSEs purchased only a small number of second mortgages: Fannie Mae purchased 658 seconds, totalling \$28.1 million, and Freddie Mac purchased 27 seconds, totalling \$1.4 million. In 1994, the GSEs purchased both fewer such loans and smaller loans. Fannie Mae's second mortgage purchases fell to 207 loans, totalling \$7.8 million, while Freddie Mac's purchases of second mortgages fell to 1, in the amount of \$24.000.

It is unclear how the GSEs will react to the fact that seconds will be eligible under the goals. One scenario might involve a substantial increase in their purchases of small home improvement loans in inner-city areas which would increase their performance under the goals. Another scenario might involve only incremental changes to their current business which would only marginally increase their performance under the goals. It is also unclear how to delineate the overall market in which the GSEs might be operating, because their past purchases have been so small. Admittedly, they could purchase second mortgages in all segments of the market (from inner city low-income loans to suburban high-income loans); however, given their current small share of the overall market, it might not be appropriate to assume their purchases would cover the entire market. In any case, HUD has made no adjustments in its market estimate to allow for the possible effects of making second mortgages eligible under the goals.

The HMDA data do include information on home improvement loans (HILs). In 1993, 620,000 home improvement loans were originated, with an average loan amount of \$20,700. Using RFS data, for the period 1989–1991, the average loan amount for HILs was \$26,700. The loan distribution for all HILs shows that 59 percent of these loans were for amounts less than \$15,000. Compared with purchase mortgages, HILs are more targeted to

lower-income borrowers. Almost 47 percent of conforming conventional owner-occupied HILs went to low- and moderate-income borrowers.

G. Size of the Conventional Conforming Market Serving Central Cities, Rural Areas, and Other Underserved Areas

The following discussion presents the estimates of the size of the conventional conforming market for the Central City, Rural Areas, and other Underserved Areas Goal (Geographically-Targeted Goal). The first two sections focus on central cities and other underserved areas. Section 1 presents area percentages for different property types while section 2 presents market estimates for these areas. Section 3 discusses rural areas.

The final rule establishes the Central Cities, Rural Areas, and other Underserved Areas Goal for 1996 at 21 percent of the total number of dwelling units financed by the GSE's mortgage purchases. The level of the goal for 1997 and subsequent years is 24 percent.

1. Central City and Other Underserved Area Shares by Property Type

For purposes of the definitions of central cities and other underserved areas, underserved areas are defined as census tracts with:

(a) Tract median income at or below 90 percent of the MSA median income; or

(b) A minority composition equal to 30 percent or more and a tract median income no more than 120 percent of MSA median income.

Table D.8 presents central cities and other underserved areas percentages for mortgages on owner, single-family rental, and multifamily properties. In 1994, 24.6 percent of home purchase loans financed properties located in these areas; this represents an increase from 22.4 percent for 1993.64 In 1994, refinance loans were slightly more likely than home purchase loans to be located in these areas (27.7 versus 24.6 percent) while in 1993 the situation was reversed (20.1 versus 22.4 percent). As table D.8 shows, the adjustments for mobile home loans are not nearly as large as those reported earlier for the borrower income data. The possibility that HMDA over-reports loans in lowincome areas suggests that these percentages should be adjusted by another percent or two (see discussion of the Berkovec-Zorn paper in section

F.1.c). Because of the importance of owner properties, the sensitivity analyses will examine a range of values for this variable.

Based on 1993 and 1994 HMDA data, the central cities and other underserved areas percentage for single-family rental units is 41–43 percent while that for multifamily properties is 48–51 percent. Thus, rental mortgages are about twice as likely as owner mortgages to finance properties located in these areas.

2. Market Estimates for Central Cities and Other Underserved Areas

Table D.9 presents estimates for the central cities and other underserved areas market for the same combinations of projections used to analyze the Lowand Moderate-Income Goal. Table D.6 in Section F.3 defines Cases 1, 2, and 3; Case 1 (the baseline) projects a 37.5 percent share for single-family rentals and a 42.5 percent share for multifamily properties while the more conservative Case 2 projects 35.0 percent and 40.0 percent, respectively.

The single-family owner percentages are the driving force in the market for the estimate, even more so than in the low- and moderate-income analysis. Table D.9 reports results under the baseline projections but for owner percentages ranging from 25 percent (1994 HMDA without mobile homes) to 20 percent (1993 HMDA) to 17 percent. The market share estimates are mostly in the 25-28 percent range if the singlefamily owner central cities and other underserved areas percentage is 18 percent or more. If the owner percentage is at the 1994 HMDA level of 25 percent, the market share estimate is as high as 29 percent.

At the lower extreme, the single-family owner percentage can go as low as 17 percent, which is 8 percentage points lower than the 1994 HMDA value, and the market estimate is still 24 percent in the base case. Thus, the Geographically Targeted Goal allows for a market not as affordable as the 1993–94 period.

Unlike the low- and moderate-income goal, the market estimates differ only slightly as one moves from Case 1 to Case 3 and from \$23 billion to \$35 billion in the size of the multifamily market. This is because the central cities and other underserved areas differentials between the owner and rental properties are not as large as the low- and moderate-income differentials reported earlier.

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⁶⁴The corresponding percentages for the definitions in the proposed rule are 15.4 percent for 1993 and 17.1 percent in 1994. Thus, the effect of the additional 3,657 census tracts is to increase the home purchase percentage by 7.0 percent in 1993 and by 7.5 percent in 1994.