3. Size of Rural Underserved Area Market

Rural areas are nonmetropolitan counties with:

(a) County median income at or below 95 percent of the greater of statewide nonmetropolitan median income or nationwide nonmetropolitan income; or

(b) A minority composition equal to 30 percent or more and a county median income no more that 120 percent of statewide nonmetropolitan median income.

HMDA does not provide mortgage data for nonmetropolitan counties, which makes it impossible to estimate the size of the mortgage market in rural areas. However, all indicators suggest that counties in rural areas comprise a larger share of the nonmetropolitan mortgage market than the census tracts in central cities and other underserved areas comprise of the metropolitan mortgage market. Counties within rural areas include 54 percent of nonmetropolitan residents as well as 54 percent of nonmetropolitan homeowners. Central cities and other underserved census tracts, on the other hand, account for 44 percent of metropolitan population and 34 percent of metropolitan homeowners.

In 1994, 26.9 percent of Fannie Mae's total purchases in nonmetropolitan areas were in rural areas while 29.2 percent of Fannie Mae's purchases in metropolitan areas were in central cities and other underserved areas. The corresponding percentages for Freddie Mac were 26.3 and 23.9, respectively. These data suggest that if the market share for counties in rural areas were available, it would be similar to the market share for census tracts in central cities and other underserved areas. Thus, HUD will use the metropolitan estimate to proxy the overall market for this goal, including rural areas.

4. Conclusions

Based on the above findings as well as numerous sensitivity analyses, HUD concludes that 25–28 percent is a reasonable estimate of mortgage market originations that would qualify toward achievement of the Geographically Targeted Goal if purchased by a GSE. HUD recognizes that shifts in economic and housing market conditions could affect the size of this market; however, the market estimate allows for the possibility that adverse economic conditions can make housing less affordable than it has been in the last two years.

H. Size of the Conventional Conforming Market for the Special Affordable Housing Goal

This section presents estimates of the conventional conforming mortgage market for the Special Affordable Housing Goal. The special affordable market consists of owner and rental dwelling units which are occupied by: (a) very-low-income families; *or* (b) low-income families in low-income census tracts[65]; *or* (c) low-income families in multifamily projects that meet minimum income thresholds patterned on the low-income housing tax credit (LIHTC).[66] HUD estimates that the special affordable market is 20–23 percent of the conventional conforming market. This market share estimate is three percentage points higher than the estimate in HUD's proposed rule mainly because low-income renters living in low-income census tracts or rural counties now qualify under the goal as defined in the final rule.

The final rule establishes the Special Affordable Housing Goal for 1996 at 12 percent of the total number of dwelling units financed by each GSE's mortgage purchases. The goal for 1997 and subsequent years is 14 percent. Of the total Special Affordable Housing Goal, each GSE must purchase annually in multifamily mortgages at least an amount equal to 0.8 percent of the total dollar volume of mortgages purchased by the GSE in 1994.

Section F described HUD's methodology for estimating the size of the low- and moderate-income market. Essentially the same methodology is employed here except that the focus is on the very-low-income market (0–60 percent of Area Median Income) and that portion of the low-income market (60–80 percent of Area Median Income) that is located in low-income areas. Data do not exist to estimate the number of renters with incomes between 60 and 80 percent of Area Median Income who live in projects that meet the tax credit thresholds. Thus, this part of the Special Affordable Housing Goal is not included in the market estimate.

1. Special Affordable Shares by Property Type

The basic approach involves estimating for each property type the share of dwelling units financed by mortgages in a particular year that are occupied by very-low-income families or by low-income families living in low-income areas. HUD has combined mortgage information from HMDA and the American Housing Survey in order to estimate these special affordable shares.

a. Very-Low-Income Owner Percentages

The percentage of borrowers with very-low-incomes was reported earlier when discussing the Low- and Moderate-Income Goal. HMDA data show that very-low-income borrowers accounted for 9.4 percent of all conforming home purchase loans in 1992, 11.5 percent in 1993, and 13.1 percent in 1994. Several adjustments were made to the HMDA data (see Table D.4). Excluding mobile home loans, for instance, reduced the 1993 and 1994 very-low-income borrower percentages to the 9–10 percent range. The AHS reports a higher very-low-income percentage of 12.9 percent for home purchase loans in 1993.

b. Very-Low-Income Rental Percentages

Table D.5 in Section F reported the percentages of the single-family rental and multifamily stock affordable to very-low-income families. According to the AHS, 61 percent of single-family units and 51 percent of multifamily units were affordable to very-low-income families in 1993. The corresponding average values for the AHS's five surveys between 1985 and 1993 were 58 percent and 46 percent, respectively.

c. Outstanding Housing Stock versus Mortgage Flow

An important issue concerns whether affordability data based on the existing rental stock can be used to proxy affordability of mortgaged rental units. Previous analysis of this issue has focussed on the relative merits of data from the recently completed stock versus data from the outstanding stock. The very-low-income percentages are much lower for the recently completed stock—for instance, the averages across the five AHS surveys were 15 percent for recently completed multifamily properties versus 46 percent for the multifamily stock. But it seems obvious that data from the recently completed stock would underestimate the affordability of newly-mortgaged units because they exclude purchase and refinance transactions involving older buildings, which generally charge lower rents than newly-constructed buildings. Blackley and Follain concluded that newly-constructed properties did not provide a satisfactory basis for

[65] Or in the case of rural areas, in low-income counties.

[66] There are two LIHTC thresholds: at least 20 percent of the units are affordable at 50 percent of AMI or at least 40 percent of the units are affordable at 60 percent of AMI.