estimating the affordability of newly-mortgaged properties.[67]

The remaining question is how much the affordability percentages from the existing rental stock should be reduced to reflect the flow of mortgage financing.[68] HUD used the 1991 Residential Finance Survey to compare rents of the outstanding stock with rents of properties receiving mortgages. There were two main findings. The first finding—and the important one for the Special Affordable Housing Goal—was that rents of newly-mortgaged properties were higher than those of the existing stock. About 44 percent of the units in newly-mortgaged, multifamily properties were affordable to very-low-income families; this compares with 52 percent for the entire multifamily stock.[69]

The corresponding percentages for single-family rental properties showed an even greater gap—47 percent for the newly-mortgaged stock and 60 percent for the existing stock. These comparisons suggest that in order to serve as a proxy for mortgage flows, the affordability percentages reported by the AHS should be adjusted downward by about 15 percent in the case of multifamily properties and 20 percent in the case of single-family properties. The baseline analysis below will use very-low-income percentages of 42.5 percent for multifamily properties and 45 percent for single-family rentals.[70]

The second finding—and the one important for the low- and moderate-income goal—was that the percentage of newly-mortgaged properties renting at a level affordable to families with less than median income was only slightly lower than the percentage of the stock renting at that level. This finding is not particularly surprising given that most of the rental stock rents at levels affordable to median income families. It suggests that only a small reduction (about 5 percent) in the affordability percentage of the existing stock is needed for it to proxy the mortgage flow.

d. Low-Income in Low-Income Areas

According to HMDA data, the percentage of home purchase borrowers who had an income between 60 and 80 percent of area median income and who lived in a low-income census tract was 1.7 percent in 1992, 1.8 percent in 1993, and 2.2 percent in 1994. The analysis below will vary this rate between 1 and 2 percent, depending on the percentage of very-low-income owners being assumed at the time.

[67] ''A Critique of the Methodology Used to Determine Affordable Housing Goals for the Government Sponsored Housing Enterprises.''

[68] Some might argue that no adjustment is needed because the existing stock represents the underlying demand for mortgage credit and thus mortgage flows will have the same characteristics as the stock. While appealing at first sight, particularly if one takes a longer-run perspective, this argument ignores the host of reasons why the mortgage flow might not take on the characteristics of the underlying rental stock—the most obvious being that new construction mortgages are a significant part of mortgage activity (almost 15 percent in 1994) but new properties represent only a minute part of the outstanding housing stock.

[69] First, HUD computed the distribution of units by rent category for existing and newly-mortgaged properties in the RFS. Because only average rent per property is reported in the RFS, all units in a particular property were assigned the same rent. Next, HUD computed the percentage of units that were affordable to families with less than 60 percent of area median income based on 1989 and 1991 AHS data; this was about 50 percent for multifamily units. This 50 percent figure was used to define the absolute rent amount ($400) in the RFS that included the bottom 50 percent of rental units. (Because the rent brackets were in $100 increments, the bottom 52 percent of rents had to be used in the RFS analysis.) Finally, HUD computed the percentage of newly-mortgaged units below $400; as the text discusses, only 44 percent of the newly-mortgaged units were below $400.

[70] Another approach would simply take the weighted average of the very-low-income percentages for newly-constructed multifamily properties (15 percent) and remaining stock (46 percent) with the weights determined by the estimated share of new construction mortgages (almost 15 percent in 1994). Doing this for multifamily also gives 42 percent.