low- and moderate-income families''.[62] The Act also clarified the GSEs' responsibility to complement the requirements of the Community Reinvestment Act and fair lending laws in order to expand access to capital to those traditionally underserved by the housing finance market.

Fannie Mae and Freddie Mac do not lead the mortgage finance industry in expanding housing opportunities for low-income home buyers and for families who must rent because they cannot afford to be homeowners. The GSEs do not lead the mortgage finance industry in providing access to mortgage credit for residents of communities that are underserved. But the GSEs can and should provide this leadership. As noted in the Act's legislative history, ''the GSEs need to provide more leadership in all of these areas, and they have indicated a desire to do so. But direct and potentially forceful federal oversight is the only way to ensure that it will happen.'' [63]

The Secretary shares the concern of Congress about the GSEs' level of activity in making mortgage credit available for lower-income families. Loans originated for families with incomes below 80 percent of area median income are less likely to be purchased by the GSEs. Five out of six single-family mortgages purchased by the GSEs are for borrowers with incomes above 80 percent of area median income. Almost 60 percent of the GSEs' single-family business is for borrowers with incomes above 120 percent of area median income.

In considering whether the GSEs are leading the industry and in establishing the appropriate levels for the housing goals, the level of originations by the primary market must be examined. The primary market is able to sell to the GSEs more loans for higher-income families than loans for lower-income families. Based on 1993 mortgage market data, the GSEs purchased 55 percent of the loans originated by the primary market for borrowers with incomes above 120 percent of area median income, but only 41 percent of the mortgages originated for borrowers with incomes less than 60 percent of area median income. This occurred notwithstanding that, in response to the Community Reinvestment Act and their desire to meet the mortgage needs of a broad range of families, lenders are originating many more mortgages for very low- and low-income families than the GSEs are purchasing.

[62] S. Rep. at 34.

[63] S. Rep. at 11.

E. Establishing the Housing Goals

The Secretary recognizes that both GSEs have improved their performance in 1993 in the provision of mortgages financing for low- and moderate-income home buyers and central city residents. Both GSEs have begun new programs to increase their ability to deliver the benefits of their activities to traditionally underserved borrowers. These activities are commendable and the Secretary looks forward to seeing those initiatives carried forward. Both GSEs have also been engaged in initiatives to communicate to lenders that the GSEs' underwriting guidelines are not intended to prevent lenders from originating loans for previously underserved segments of their communities.

The Secretary notes these initiatives and the performance of the GSEs under the 1993 housing goals. Both Fannie Mae and Freddie Mac have made progress in carrying out their Charter-required activities to expand access to credit. At the same time, greater accomplishments are needed to assure that the GSEs fully realize their Charter Act purposes. To meet the intent of the Act, the GSEs must purchase more loans originated by the market for borrowers with lower incomes.

The Secretary does not intend that the GSEs do less business for borrowers with high incomes in order to increase their purchases of mortgages for lower-income families. Given the capacity of the GSEs, a tradeoff between high-income and low-income business does not need to occur. When the mortgage market spiked to a trillion dollars in volume in 1993, the GSEs demonstrated their capacity to expand their volume tremendously. The Secretary does not believe that the GSEs will have to shrink one portion of their business to expand their focus on achieving their Charter purposes of providing access to credit to all Americans.

This view has also been expressed by James A. Johnson, Chairman and Chief Executive Officer of Fannie Mae, in Congressional testimony in April 1994:

> It is a governmental frame of reference to assume (Fannie Mae's) resources are limited (as appropriations would be for a government department) and then to 'assign' them through numerous subgoals to categories of need. But the fact that Fannie Mae helps moderate-income families in no way diverts (Fannie Mae) from supporting low-income families.[64]

[64] Testimony before the Committee on Banking, Finance, and Urban Affairs, Subcommittee on General Oversight, Investigations, and the Resolution of Failed Financial Institutions, U.S. House of Representatives, at 17 (April 20, 1994).

In setting the levels of the housing goals, the Secretary has considered carefully the six factors stipulated in the Act: National housing needs; economic, housing, and demographic conditions; the previous performance and effort of the enterprises in achieving the specific goal; the size of the market for that goal; the ability of the GSEs to lead the industry; and the need to maintain the sound financial condition of the enterprises.[65] The Secretary has concluded that these factors, as well as the requirement that the GSEs lead the industry in affirmative efforts to meet the needs of lower-income families and residents of central cities, rural areas, and other underserved communities, dictate that the levels of the housing goals should be increased for 1995–1996. The Secretary considered the following factors which are analyzed in detail in the appendices:

(1) *Housing Needs.* Homeownership is a key aspiration of most Americans. Homeownership fosters family responsibility and self-sufficiency, expands housing choice and economic opportunity and promotes community stability. A homeowner has the most secure physical environment in which to raise a family. Children of homeowners are more likely to graduate from high school, less likely to commit crime, and less likely to themselves have children as teenagers than children of renters. Recent surveys indicate that lower-income families and minority families who do not own their own homes will make considerable sacrifices to purchase a home.

During the past decade, the goal of homeownership has become more elusive for very low-, low-, and moderate-income families. The homeownership rate in this country declined from on all-time high of 65.6 percent in 1980 to 63.9 percent in 1985, where it has remained essentially unchanged. The families that bore the brunt of this decline in homeownership are households who earn less than the median, particularly single-parent households and households with children.

At the same time, housing needs of families who rent have also increased. Finding affordable housing is by far the most common housing problem for American families nationwide. Poor households compete for a diminishing number of affordable apartments as low-cost units are lost to disrepair or are upgraded to serve higher-income renters. The result is growing numbers of low-income households who pay high shares of their income for

[65] 12 U.S.C. 4562.