

special affordable housing goal,⁷³ and a central cities, rural areas and other underserved areas housing goal.⁷⁴ The Act provides that the goals are to be established in a manner consistent with sections 301(3) of the Fannie Mae Charter Act and 301(b)(3) of the Freddie Mac Act, which require the GSEs "to provide ongoing assistance to the secondary market for residential mortgages (including * * * mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) * * *." Under the Act, the Secretary may, by regulation, adjust any housing goal from year to year.⁷⁵ The statute provides that, in establishing these goals, the Secretary shall apply certain prescribed factors, as described in Appendices A, B, and C.⁷⁶ In this regulation, the Secretary proposes to establish the three housing goals for 1995 and 1996. The Secretary is also planning to establish the level of the goals for 1997 and beyond in the final regulation.

In this regulation, each housing goal requires that a certain percentage of the dwelling units financed by each GSE's total mortgage purchases for the year be the type of dwelling units targeted by the housing goal. For example, for 1995, the housing goal for low- and moderate-income families is established at 38 percent—in other words, 38 percent of the dwelling units financed by each GSE's mortgage purchases would have to be affordable to low- or moderate-income families; thus, if a GSE's mortgage purchases financed 2 million dwelling units, the proposed regulation would require that 38 percent of those 2 million dwelling units, or 760,000 dwelling units, be affordable to low- or moderate-income families.

A single mortgage can count for all three goals. For example, a mortgage that finances a house for a low-income family in a central city would count under the special affordable housing goal (low-income family in a low-income area), the low- and moderate-income housing goal (low-income borrower), and the central cities, rural areas, and other underserved areas goal (central city). Under the housing goals for 1993, the majority of the mortgages that qualified for one goal also qualified for a second goal.

Housing Goal for Low- and Moderate-Income Families

The Secretary is establishing an annual housing goal for each GSE's purchase of mortgages on housing for low- and moderate-income families ("the low- and moderate-income goal"). The Secretary's detailed findings under the factors for establishing the goal are attached as Appendix A. The annual goal for 1995 for each GSE's purchases of conventional mortgages financing housing for low- and moderate-income families is established at 38 percent of the total number of dwelling units financed by each GSE's mortgage purchases in 1995. The annual goal for 1996 is 40 percent. The final regulation shall establish the annual goals for 1997 and 1998 and the Secretary intends that the 1998 goal apply thereafter, unless revised through subsequent rulemaking; the Secretary seeks comment on the level of the goals for 1997, 1998, and thereafter—see the questions listed above (in the leading the industry discussion) and repeated at the end of this preamble.

Housing Goal for Central Cities, Rural Areas, and Other Underserved Areas

The Secretary is establishing an annual goal for 1995 and 1996 for the GSEs' purchase of mortgages on housing located in central cities, rural areas, and other underserved areas. In accordance with the Act, under this proposed rule, the Secretary is expanding and redefining this goal from the central cities goal, which applied during the transition years of 1993 and 1994, to a goal that is directed to mortgage purchases in central cities, rural areas and other areas, with a focus on underserved areas within those geographic locations. "Underserved areas" are those areas that experience problems with the availability of mortgage credit.

For the transition period of 1993 and 1994, the goal was directed solely to the GSEs' purchases of mortgages financing housing located anywhere in "central cities." The Act defined "central cities" for the transition period as those cities designated as central cities by the Office of Management and Budget (OMB). These provisions were modelled on HUD's existing Fannie Mae regulations. The legislative history of the Act states that for the transition period the goal only applied to purchases in OMB-defined "central cities" to allow time to gather data and establish an appropriate methodology to "redefine and expand" the goal.⁷⁷ The legislative history also

provides that "following the transition period, geographic areas relating to the goal will be as determined by (the regulator)." ⁷⁸

Following the transition period, the Act requires the Secretary to establish an annual goal for the purchase of mortgages located in "rural areas and other underserved areas" as well as "central cities." In establishing the central cities, rural areas, and other underserved areas goal, Congress was concerned with the "acute" "housing problems" in the nation's cities and with the "neglected and decaying" parts of the cities.⁷⁹ Congress directed HUD to target "areas with relatively poor access to mortgage credit," areas with "(i)nadequate access to mortgage credit," and areas suffering from "the vestiges of redlining."⁸⁰

The legislative history provides that "(t)he purpose of these goals is * * * to service the mortgage finance needs of low- and moderate-income persons, racial minorities and *inner-city* residents."⁸¹ Congress noted that "* * * mortgage discrimination and redlining have effectively disadvantaged certain geographic areas, particularly *inner city* and rural areas."⁸² In explaining the conference bill on the floor of the Congress, Chairman Gonzalez stated: "In establishing the definition of a central city and in determining compliance with such a goal, the Secretary should, to the extent possible, exclude purchases made in non-low income census tracts that happen to otherwise be within the central cities area."⁸³

The title of this goal also leads to the conclusion that Congress intended this geographically targeted goal to focus on underserved areas. "Central cities, rural areas, and *other* underserved areas" indicate that central cities and rural areas are intended to be proxies for underserved areas.

⁷⁸ S. Rep. at 65.

⁷⁹ S. Rep. at 28.

⁸⁰ S. Rep. at 38; *see also, id.* at 34 (the GSEs must address "the disinvestment in central cities and rural communities"). "(R)edlining ha(s) effectively disadvantaged certain geographic areas, particularly inner city and rural areas." *Id.* at 41. *See also*, 138 Cong. Rec. S8606 (daily ed. June 23, 1992) (statement of Sen. Riegle) (the bill would provide "a greater flow of credit to people who otherwise have a very difficult time financing home mortgages").

⁸¹ S. Rep. at 34 (emphasis added); *see also, id.* at 32, and 138 Cong. Rec. S8606 (daily ed. June 23, 1992) (statement of Sen. Riegle) ("inner-city lending * * * is a very important part of this legislation").

⁸² S. Rep. at 41 (emphasis added).

⁸³ 138 Cong. Rec. H11453, H11457 (daily ed. Oct. 5, 1992). Rep. Gonzalez made the identical statement at 138 Cong. Rec. H11077, H11099 (daily ed. Oct. 3, 1992).

⁷³ Section 1333.

⁷⁴ Section 1334.

⁷⁵ Section 1331(c).

⁷⁶ Sections 1332(b), 1333(a)(2), and 1334(b).

⁷⁷ *See* S. Rep. at 38 and 65.