

financed under mortgages purchased by the GSEs are located in central cities, rural areas, and other underserved areas as defined by regulation.

#### Special Affordable Housing Goal—Background

This goal had no antecedent in the current Fannie Mae regulations. The Act requires that the Secretary “establish a special annual goal designed to adjust the purchase by each (GSE) of mortgages on rental and owner-occupied housing to meet the then-existing, unaddressed needs of, and affordable to, low-income families in low-income areas and very low-income families.”<sup>96</sup>

During the transition period (1993–1994), the Act required that each GSE’s mortgage purchases under the special affordable housing goal be equally divided between mortgages on single family housing and mortgages on multifamily housing.<sup>97</sup> The multifamily goal was further divided, with 45 percent of the goal devoted to mortgages on multifamily housing where dwelling units were affordable to low-income families.<sup>98</sup> The remaining 55 percent of the dollar volume of multifamily mortgages purchased had to comprise mortgages on multifamily housing in which either: (1) “at least 20 percent of the units are affordable to families whose incomes do not exceed 50 percent” of area median income;<sup>99</sup> or (2) “at least 40 percent of the units are affordable to very low-income families.”<sup>100</sup> Only the portions of qualifying mortgages on multifamily properties that are attributable to units affordable to low-income families contributed to the achievement of this goal.<sup>101</sup> Under the transition standard, where at least 20 percent of the units were affordable to especially low-income families (families whose incomes do not exceed 50 percent of area median income) or at least 40 percent of the units were affordable to very low-income families, all units from such multifamily projects that were affordable to low-income families counted toward the goal.

The Act required that, for each GSE’s mortgage purchases financing single family housing to be counted toward achievement of the special affordable housing goal, 45 percent of the dollar volume of single family mortgages had

to comprise mortgages of low-income families living “in census tracts in which the median income does not exceed 80 percent of the area median income.”<sup>102</sup> The remaining 55 percent of the dollar volume of single family mortgage purchases had to comprise mortgages of very low-income families.<sup>103</sup>

#### The Special Affordable Housing Goal

Following the transition period, the Act does not specify the types of mortgage purchases that shall count toward achievement of the special affordable housing goal.<sup>104</sup> Based on experience during the transition, the Secretary concluded that determining GSE performance under these provisions was cumbersome and did not clearly reflect the number of especially low- and very low-income families actually served under the multifamily portion of the special affordable housing goal. Accordingly, as described below, the proposed regulation simplifies the counting under this portion of the goal.

The proposed regulation would substantially simplify the special affordable housing goal to apply to “rental housing and owner-occupied housing.”<sup>105</sup> Under the proposed regulation, rental housing would include all units in multifamily housing and all units in single family rental housing. The proposed regulation makes this change in part because of the high percentage of renters in single family dwelling units—41 percent of rental units in properties secured by conventional, conforming mortgages are located in single family properties.<sup>106</sup>

The rental portion of the special affordable housing goal would be targeted to very low-income families because of the substantial housing needs of these renters. Five-eighths of renters with incomes below 50 percent of area median income pay more than 30 percent of their income for housing, live in inadequate housing, or are overcrowded.<sup>107</sup> Even worse, almost half of the 7.4 million renters with incomes below 30 percent of area median income pay more than half of their income for housing or live in

severely inadequate housing.<sup>108</sup> The high incidence of severe housing problems among these extremely-low-income renters reflects the severe shortages of units affordable to them.

Under the proposed regulation, only those rental units that are affordable to very low-income families would count toward the goal rather than all low-income units in buildings that had a certain percentage of very low- or especially low-income units. Under the owner-occupied housing portion of the goal, the dwelling units that count toward the goal are units: (1) Located in low-income areas and owned by low-income families; and (2) owned by very low-income families.

The Act provides that, for each GSE, the special affordable housing goal “shall not be less than 1 percent of the dollar amount of the mortgage purchases by the (GSE) for the previous year.”<sup>109</sup> Although the goal has been established to exceed one percent of each GSE’s total mortgage purchases in the preceding year, to maintain consistency, the special affordable housing goal, like the other two goals, is expressed as a percentage of dwelling units rather than dollars. The Secretary determined that expressing this goal as a percentage of the previous year’s business was not preferable for several reasons: (1) Due to the cyclical nature of the mortgage market and the GSEs’ business volume, use of a fixed percentage of the previous year’s purchases could make such a goal less realistic in a year such as 1995, when total purchases are projected to fall sharply from prior-year levels due to the decline in refinancing activity; (2) conversely, in years of sharply increasing activity, the goal represented by a set percentage of total mortgage purchases in the previous year could represent an insufficient commitment by the GSEs to special affordable housing; and (3) where a GSE purchases (for a given sum) mortgages financing two dwelling units that are affordable to families at 30 percent of area median income, the GSE would be making a greater contribution to affordable housing than if the GSE purchased (for the same sum) one mortgage that was affordable to one family at 60 percent of area median income. A units-based goal takes this consideration into account, but a strict dollar-based goal would not.

The proposed regulation provides that for 1995 the special affordable housing goal will be 11 percent of the total

<sup>96</sup> Section 1333(d)(3)(B)(i).

<sup>97</sup> Section 1333(d)(3)(B)(ii).

<sup>98</sup> See section 1333.

<sup>99</sup> See section 1333(a).

<sup>100</sup> Special tabulation derived from Bureau of the Census, Housing and Household Economic Statistics Division, *1991 Residential Finance Survey*.

<sup>101</sup> U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *Worst Case Needs for Housing Assistance in the United States in 1990 and 1991—A Report to Congress*, 4 (June 1994).

<sup>102</sup> U.S. Department of Housing and Urban Development, Office of Policy Development and Research.

<sup>103</sup> Section 1333(a).

<sup>96</sup> Section 1333(a)(1).

<sup>97</sup> Section 1333(d)(1)–(2).

<sup>98</sup> Section 1333(d)(3)(A)(i).

<sup>99</sup> Section 1333(d)(3)(A)(ii)(I). The Department defined “especially low-income families” as those with incomes not in excess of 50 percent of area median income.

<sup>100</sup> Section 1333(d)(3)(A)(ii)(II).

<sup>101</sup> Section 1333(d)(3)(C).