5. The ability of the enterprises to lead the industry in making mortgage credit available for low- and moderate-income families; and

6. The need to maintain the sound financial condition of the enterprises.

B. Underlying Data

In considering the factors under the Act to establish these goals, the Secretary relied upon data gathered from the American Housing Survey, the 1990 Census of Population and Housing, the 1991 Residential Finance Survey, other government reports, the Home Mortgage Disclosure Act (HMDA) reports, and the GSEs. The Secretary used data provided by the GSEs to determine their prior performance in meeting the needs of low- and moderate-income families and their financial condition. These data included loan-level information on all mortgages purchased by the GSEs in 1993.

Section C discusses each of the factors listed above. Section D summarizes the Secretary's rationale for selecting the low- and moderate-income goals for 1995 and 1996.

C. Consideration of the Factors

Overview of Sections C.1 and C.2. These sections cover a range of topics on housing needs and economic and demographic trends that are important for understanding mortgage markets. Certain information, such as trends in income inequality, is provided because it helps explain problems that the low- and moderate-income housing goal is intended to address. Other information, such as trends in refinancing activity, is provided because it describes the market environment in which the GSEs must operate and is therefore useful for gauging the reasonableness of specific levels of the low- and moderate-income goal. Finally, information is provided that documents the severe housing problems faced by lower income families.

This information has led the Secretary to the following conclusions:

- Purchasing a home became increasingly difficult for lower income and younger families during the 1980s. Low-income families with children, who could most benefit from the advantages of ownership, bore the brunt of the decline in ownership rates. The share of the nation's children living in owner-occupied homes fell from 71 percent to 63 percent between 1980 and 1991.
- Very low-income renters often must pay an unduly high share of their income for rent.
- Several demographic changes will affect the demand for housing over the next few years. The continued increase in immigrants will increase the demand for both rental and owner-occupied housing. Non-traditional households have become more important as overall household formation rates have slowed. With later marriage, divorce, and other non-traditional living arrangements, the fastest growing household groups are single-parent and single-person households.
- The volume of mortgage originations is expected to fall from its 1993 record level of one trillion dollars to about $600 billion in 1995. Purchase mortgages, including those for first-time homebuyers, will replace refinance mortgages as the dominant mortgage type.
- The predominance of purchase mortgages, as opposed to refinance mortgages, will make it easier for the GSEs to meet a given low- and moderate-income goal. Historically, mortgages for low- and moderate-income borrowers have represented a larger proportion of purchase mortgages than of refinance mortgages.
- The recent rise in interest rates from 25 year lows could make it more difficult for marginal borrowers to afford homeownership. However, interest rates continue to remain lower and housing more affordable than was true for any previous extended period since 1977. Borrowers will also be helped by the rising incomes that accompany economic growth.

1. National Housing Needs

a. Housing Problems Among Low- and Moderate-Income Owners and Renters

Under the income definitions in the Act, almost three-fifths of U.S. households qualified as ''low-'' or ''moderate-''income families in 1991. Almost half of all homeowners (49 percent) had incomes below their (unadjusted) area median family income, while 71 percent of renters had income below their area's HUD-adjusted median family income.[2]

Housing needs in 1991 varied sharply with income. One-eighth of owners with moderate incomes (income 80 to 100 percent of area median) and one-fourth of moderate-income renters had a housing problem, compared to 17 percent of low-income owners and 44 percent of low-income renters (with income 60 to 80 percent of area median). Moreover, two-thirds of the 14 million households with incomes below 30 percent of median paid more than 30 percent of income for housing or lived in inadequate or crowded housing.[3]

b. Affordability Problems and Worst Case Housing Needs

Finding affordable housing is by far the most common housing problem for American families nationwide.[4] Between 1979 and 1991, shares of households paying more than 30 percent of their income for housing fluctuated around 42 percent among renters and rose from 17 percent to 20 percent among owners.[5] Over this period, the number of low-income renter households spending 50 percent or more of their income on housing rose from 4.3 million in 1978 to 6.0 million in 1991.[6] Poor homeowners also pay high proportions of their income for housing costs. Between 1978 and 1989, the share of poor homeowners spending over 60 percent of income on housing rose from 30.6 percent to 33.1 percent.[7]

Although affordability problems affect two-fifths of low-income renters and one-eighth of low-income owners, they are most frequent and severe among the very lowest income owners and renters. In 1991, when the average gross rent/income ratio for renters with incomes above area median income was 23 percent, this ratio was 72 percent for renters with incomes below 30 percent of area median income and 41 percent for renters with incomes between 30 and 49 percent of median.[8]

Priority problems—defined as paying more than half of income for rent and utilities, being displaced, or living in severely inadequate housing—were heavily concentrated among renters with incomes below 50 percent of area median. Half of renters with incomes below 30 percent of median, and one-fourth of those with incomes 31–50 percent of median, had these severe ''worst case'' housing needs.[9]

According to HUD's third Congressionally-mandated study of worst case needs, severe affordability problems were not only the overwhelming cause of worst case needs but often a family's only housing problem.[10]

in Alaska, Hawaii, Guam, and the Virgin Islands. The conforming loan limit is adjusted annually based on the October-to-October percentage increase in house prices, as determined by the Federal Housing Finance Board's Monthly Interest Rate Survey. In practice, the conforming loan limit has only been increased since 1990; in the case of declines in house prices, the limit has been held constant.

[2] HUD is required by statute to adjust median family income in developing its official income cutoffs for each Metropolitan Statistical Area (MSA) and non-metropolitan county. Income limits based on HUD-Adjusted Area Median Family Incomes (HAMFI) are adjusted (1) With upper and lower caps for areas with low or high ratios of housing costs to income; (2) by setting state nonmetropolitan average income as a floor for nonmetropolitan counties; and (3) by household size. The adjusted annual estimates of area median family income provide the base for the ''50 percent'' and ''80 percent'' of HAMFI cutoffs that are assigned to a household of four. Household size adjustments then range from 70 percent of the base for a 1-person household to 132 percent of the base for an 8-person household.

[3] Tabulations of U.S. Departments of Housing and Urban Development and Commerce, *American Housing Survey for the United States in 1991* (April 1993) performed by HUD Office of Policy Development and Research.

[4] Since the early 1980s, ''affordable housing'' has generally been interpreted as housing in which the homeowner or renter pays no more than 30 percent of family income for housing costs, including utilities.

[5] U.S. Departments of Housing and Urban Development and Commerce, *American Housing Survey for the United States in 1991,* April 1993.

[6] 1974–1979 figures from Nelson and Khadduri, ''To Whom Should Limited Housing Resources Be Directed,'' 3 *Housing Policy Debate 1,* 16, 1992. 1991 figure from *Worst Case Needs for Housing Assistance in the United States in 1990 and 1991.* HUD–1481–PDR, June 1994.

[7] Center on Budget and Policy Priorities and Low Income Housing Service, *A Place to Call Home,* April 1989; and U.S. Departments of Housing and Urban Development and Commerce, *American Housing Survey for the United States in 1989,* July 1991.

[8] Tabulations of U.S. Departments of Housing and Urban Development and Commerce, *American Housing Survey for the United States in 1991,* April 1993, performed by HUD Office of Policy Development and Research.

[9] Congress defines ''worst case needs'' for housing assistance as unassisted renters with incomes below 50 percent of area median income who have priority problems.

[10] *Worst Case Needs for Housing Assistance in the United States in 1990 and 1991.* HUD–1481–PDR, June 1994.