projections are based on HUD's Survey of Mortgage Lending Activity (SMLA). The HMDA data are expressed in terms of number of loans rather than number of units, thus undercounting single-family 1–4's and multifamily units. SMLA data are also expressed in dollar terms rather than in terms of the number of dwelling units. Neither data source distinguishes between single-family owner-occupied one-unit properties and single-family owner-occupied rental properties. Therefore, several assumptions must be made to derive low-mod estimates for the conforming conventional market. The following six steps outline how the low-mod share was estimated under this approach:

(1) Single-family (1–4) mortgage originations for 1995 are estimated to be $615 billion, a reduction of $395 billion from the record setting $1,010 billion in 1993.[44] The reduction is due to the decline in refinance activity which is projected to fall from almost 60 percent of originations in 1993 to 15 percent in 1995.

(2) To derive single-family unit projections, the following assumptions were made:[45] the average conventional loan amount equals $107,000; conforming originations equal 81 percent of the conventional market; units per 2–4 rental property equal 2.25; and units per 1–4 investment property equal 1.35. Property shares for the 1995 single-family, conventional conforming mortgage market are assumed to be 88 percent for single-family owner-occupied, 2 percent for single family 2–4's, and 10 percent for single family 1–4's.

(3) Multifamily originations are projected to increase from $30 billion in 1993 to $33 billion in 1995. The average per unit loan amount is projected to be $32,500; sensitivity analysis was conducted for lower amounts.[46]

(4) Under the above ''base case'' assumptions, shares of dwelling units to be financed in the 1995 mortgage market are projected to be 68 percent for single family owner-occupants, 4 percent for single family 2–4's, 10 percent for single family 1–4's, and 18 percent for multifamily.

(5) Estimates of the percentage of dwelling units occupied by low- and moderate-income families were as follows: 38.2 percent for single family owner-occupied purchase mortgages and 29.3 percent for single family owner-occupied refinance mortgages—both estimates are based on 1993 HMDA data; and 62 percent for single family 2–4's, 91 percent for single family 1–4's, and 93 percent for multifamily. The low-mod percentages for the three rental categories were based on 1993 GSE data and 1991 AHS data.[47]

(6) Applying the above low-mod shares to the property type weights in (4) suggests that 54 percent of the dwelling units financed by conventional conforming mortgages in 1995 will be occupied by low- and moderate-income families.

The 1992 share of the single-family owner-occupied mortgage market accounted for by low- and moderate-income borrowers was less than the 1993 share reported above. According to 1992 HMDA data, 33.5 percent (25.1 percent) of single-family owner-occupied purchase (refinance) mortgages were taken out by low-mod borrowers. Substituting these 1992 figures for the 1993 HMDA data (38.2 percent and 29.3 percent, respectively) in step (5) suggests that 50 percent of the dwelling units financed by conventional conforming mortgages in 1995 will be occupied by low- and moderate-income families. Averaging the 1992 and 1993 HMDA data suggests a 52 percent low-mod share for the market.

When conducting this market analysis, an issue arose concerning interpretation of the above HMDA estimates of the low-mod market. The low-mod shares are derived by comparing individual borrower incomes reported on the mortgage application with the median income of the metropolitan area where the borrower lives. If the borrower's income is less than metropolitan area median income, the borrower's loan is classified as a low-mod loan. Unfortunately, the median income for individual metropolitan areas are only available from the decennial censuses; estimates are required for the years between the censuses. HUD provides area median income projections that are used both by the Federal Reserve Board to classify HMDA loans and by the GSEs to classify their loans for purposes of the low-mod and special affordable housing goals.[48] Recently available Census data on 1993 median income for the nation as a whole suggest that HUD overestimated 1993 area median incomes by about seven percent, on average. Comparing actual borrower incomes to overestimated area median incomes leads to an overestimate of the percentage of low-mod borrowers in the GSE and HMDA data bases. Rerunning the 1993 HMDA data but reducing area median incomes by seven percent causes the low-mod share of purchase mortgages to decline from 38.2 percent to 32.8 percent, and the low-mod share of refinance mortgages to fall from 29.3 percent to 24.2 percent. Substituting these lower, adjusted percentages into steps (5) and (6) above reduces the low-mod share for the overall market to 50 percent.

Because of uncertainty about the property type weights, additional sensitivity analyses were conducted for the market importance of each property type as well as for the low-mod shares of each property type. For example, the property weights in (4) for the three rental categories are less than those referenced earlier based on the Residential Finance Survey data. Because the rental property types exhibit a higher low-mod share, increasing their weights increases HUD's estimate of the mortgage market's low-mod share. The single-family rental property low-mod shares based on GSE data are less than those reported earlier based on AHS data. Therefore, substituting the AHS data for the GSE data increases the overall estimate of the low-mod share of the market.

HUD also conducted several sensitivity analyses of assumptions made in steps (1)–(3); in most instances, the estimated low-mod share was in the 50–55 percent range.

c. Caveat: Low-Mod Market Share Estimate May Be Lower Than Market Share

The above estimate of the low-mod market will continue to be refined as more data become available to HUD. However, two caveats about the 50 percent estimate should be kept in mind. First, the low-mod market may be greater than 50 percent because it was

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in Appendix B. However, HMDA data also provide income information for single-family borrowers; thus, it was decided to use these data as an alternative to the AHS data for estimating the low-mod share in this Appendix and for estimating the very low-income share in Appendix C. Unfortunately, HMDA does not provide any useful income information for rental properties. The data used in the analysis exclude loans less than $15,000, those with loan-to-income ratios that exceed six, and loans to non-owner occupants.

[44] Fannie Mae, Freddie Mac, and the Mortgage Bankers Association have provided HUD with estimates of 1995 mortgage originations. The single-family and multifamily origination data reported in this section are based on the projections of these organizations and the Department. Except for a slightly higher estimate for multifamily originations, the 1996 market is expected to be similar to the 1995 market. Therefore, the discussion focuses on the 1995 market. The various market estimates for the 1995 market reported in Appendices A, B, and C serve as a proxy for the 1996 market.

[45] The average loan amount is derived from the Federal Housing Finance Board's monthly survey of major lenders which reports mortgage terms and conditions. The proportions of conventional originations that are conforming is derived from the Residential Finance Survey, and is consistent with GSE estimates.

[46] In 1993, Fannie Mae's per unit multifamily loan amount was $24,679 and Freddie Mac's was $17,695. Both agencies project about $26,000 for 1995. Given the uncertainty about the correct market average per loan amount, sensitivity analysis was done using an average of $30,000 for the market. This had the effect of raising the estimated low-mod market share in step (6) by less than one percentage point.

[47] Little data exists on the low-mod shares for the two single-family rental property types; for this reason, it was necessary to use the GSE data. Fannie Mae's low-mod percentages for 2–4 and 1–4 properties were 62 percent and 87 percent, respectively. Freddie Mac's were somewhat lower at 54 percent and 85 percent, respectively. The American Housing Survey, which combines these two property categories shows a 69 percent low-mod share for recently build 1–4 rental units and a 91 percent low-mod share for the existing stock. The 2–4 low-mod share (63 percent) is based on Fannie Mae's data which is probably a conservative estimate for the overall 2–4 market. The 1–4 low-mod share (91 percent) is consistent with both the AHS and GSE data. The multifamily low-mod share (93 percent) is consistent with both the AHS and Fannie Mae's data.

[48] To obtain annual estimates of area median incomes, HUD starts with area median incomes from the 1990 census and projects them forward based on trends in national median income which is available annually on a lagged basis. These metropolitan area income projections, which are also used in HUD's rental assistance programs to define eligibly for subsidy, must be made prior to the program year in which they apply. They are made in the quarter preceding the applicable program year and are based on national Census data available at that time. For example, the 1993 income projections were made in the fourth quarter of 1992 and they were based on Census median income data from a March 1992 survey that measured mid-1991 income levels for the nation as a whole. HUD used the survey data to project metropolitan area income estimates from the 1990 Census to mid-1991, and then applied a four percent annual income growth rate to derive a 1993 income estimate for each metropolitan area. For further information, see ''FY93 Income Limits Briefing Material'' which is available from HUD.