The GSEs' performance under the housing goals will be heavily influenced by overall housing market activity in 1995 and 1996. Low interest rates caused 1993 to be a record year for mortgage originations as refinancings accounted for about 70 percent of the GSEs' business. First-time home buyers were the driving force on the home-purchase side of the market. As explained above, the 1995 and 1996 market is expected to be quite different. Single-family mortgage originations are projected to decline by almost 40 percent between 1993 and 1995, from one trillion dollars to $615 billion. This market fall-off is due entirely to the collapse of the refinance market which is expected to decline from over 55 percent of mortgage activity in 1992 and 1993 to below 20 percent in 1995 and 1996. HUD considered these expected market changes when setting housing goals for 1995 and 1996. HUD's analysis suggested the following effects:

- The projected market shift from refinance to purchase mortgages should increase the low- and moderate-income proportion of mortgage market activity because purchase mortgages are more apt to be obtained by lower-income borrowers than are refinance mortgages. For instance, in 1993, 33 percent of Fannie Mae's single-family purchase mortgages qualified as low-mod versus only 27 percent of its refinance mortgages.
- The substantial decline in single-family mortgage originations, combined with the GSEs' stated intentions to increase purchases of multifamily mortgages, should increase the low- and moderate-income proportion of each GSE's business because practically all multifamily units qualify as low-mod under the Act's definitions. Section C.4 provided estimates of the increase in the multifamily share of the market in 1995 and 1996.
- The recent rise in interest rates from 25 year lows could make it more difficult for lower-income borrowers to qualify for mortgages underwritten according to GSE guidelines. However, interest rates continue to remain lower and housing more affordable than was true for any previous extended period since 1977. Higher interest rates should be partially offset by other demand factors such as rising incomes during the economic recovery and a continued strong first-time homebuyer market due to the pent-up demand for homeownership on the part of renters left out of the market during the 1980s. Furthermore, lenders, the GSEs, and private mortgage insurers are implementing changes in mortgage marketing and underwriting that will extend homeownership opportunities to lower-income households. These changes are increasing the pool of potential loan applicants that qualify under the low-mod goal.

4. Parity Between the GSEs

The Secretary is establishing identical goals for both Fannie Mae and Freddie Mac. Freddie Mac consistently lags behind Fannie Mae on the housing goals. In part, this is due to Freddie Mac's limited multifamily activity—their 1993 multifamily mortgage purchases accounted for only 1.6 percent of their overall low-mod performance (versus 16 percent for Fannie Mae). Freddie Mac has used the past four years to rebuild its multifamily operations and has recently brought on new staff, developed new systems, and is pursuing an aggressive acquisition strategy. On the single-family side, Freddie Mac serves the same lenders and offers the same products as Fannie Mae. Therefore, it should be able to match Fannie Mae's performance in achieving the goals. Moreover, the legislative history supports the idea of parity after the transition period, noting that ''because the enterprises have essentially equal opportunities, their respective annual goals should generally be set at comparable levels.'' [61]

5. Conclusions

To conclude, the Secretary has determined that the 1995 and 1996 goals set forth above address national housing needs and current economic, housing, and demographic conditions, and that they take into account the GSEs' performance in the past in purchasing low- and moderate-income mortgages, as well as the size of the conventional mortgage market serving low- and moderate-income families. Moreover, the Secretary has considered the GSEs' ability to lead the industry as well as the GSEs' financial condition. The Secretary has determined that the goals are necessary and achievable.

Based on a consideration of the factors, the Secretary proposes to establish all three goals for 1997 and 1998 so that the goals will move the GSEs steadily over a reasonable period of years, including these two years, to a level of mortgage purchases where the GSEs will be leading the industry in purchasing mortgages meeting the goals. In carrying out this objective, the Secretary proposes to establish the goals for 1997 and 1998 at levels ranging from the same amounts established for 1996 to higher levels. The purpose of any higher levels would be to continue to move the GSEs toward purchasing a greater proportion of targeted mortgages originated by the market.

[61] Senate Report 102–282, p. 36.

Appendix B—Secretarial Considerations To Establish the Central Cities, Rural Areas, and Other Underserved Areas Housing Goal

A. Establishment of Goal

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA) requires the Secretary to establish an annual goal for the purchase of mortgages on housing located in central cities, rural areas, and other underserved areas.

In establishing this annual housing goal, the Act requires the Secretary to consider:

1. Urban and rural housing needs and the housing needs of underserved areas;
2. Economic, housing, and demographic conditions;
3. The performance and effort of the enterprises toward achieving the central cities, rural areas, and other underserved areas housing goal in previous years;
4. The size of the conventional mortgage market for central cities, rural areas, and other underserved areas relative to the size of the overall conventional mortgage market;
5. The ability of the enterprises to lead the industry in making mortgage credit available throughout the United States, including central cities, rural areas, and other underserved areas; and
6. The need to maintain the sound financial condition of the enterprises.

As described in Section 1334(d) of the Act, the annual target for this goal for the 1993–94 transition period was that 30 percent of units financed by mortgages purchased by each enterprise should be located in ''central cities,'' as designated by the Office of Management and Budget. Starting in 1995, this interim target is to be replaced with a goal targeting areas with relatively poor access to credit in ''central cities, rural areas, and other underserved areas.'' [1] The Secretary has defined ''central city'' as the underserved area of any political subdivision designated as a central city by OMB. The Secretary has defined ''rural area'' as any underserved area located outside of any metropolitan statistical area (MSA) designated by OMB. The Secretary has determined that ''underserved areas'' are defined as census tracts or non-metropolitan counties where: Minorities comprise 30 percent or more of the residents and the median income of families does not exceed 120 percent of the area median income; or where the median income of families does not exceed 80 percent of the area median income.

Section B reports findings on access to mortgage credit and Section C addresses the six factors listed above. Section D summarizes the Secretary's rationale for selecting the goals for central cities, rural areas, and other underserved areas for 1995 and 1996.

B. Underlying Data and Identifying Underserved Areas

1. Introduction and Overview

For the post-transition period, the Secretary was charged with redefining and expanding this goal from the transition target of ''central cities'' to include "rural areas and other underserved areas.'' The legislative history shows that Congress intended that the goal target geographic areas with ''relatively poor'' or ''inadequate'' access to mortgage credit and areas suffering from ''the vestiges of redlining.'' [2]

Data on mortgage credit flows are far from perfect, and issues regarding the identification of areas with inadequate access to credit are both complex and controversial. For this reason, before considering housing needs, past enterprise performance, and the size of the conventional market in ''underserved'' areas, it is essential to define ''underserved areas'' as accurately as possible from existing data. To provide essential background for understanding the Secretary's proposed definition of underserved areas for this goal, this section carefully reviews the evolving literature investigating access to credit and reports findings from HUD's analysis of 1993 HMDA data.

Two main points are made in this section:

[1] FHEFSSA, section 1334(a).

[2] Senate Report at 38.