

Among other issues considered in setting the underserved definition included setting the income threshold to the area median income, to include more moderate income areas. This alternative would add tracts with incomes between 80 and 100 percent of the area median. However, it should be noted that minority tracts (over 30 percent minority) at this income level are included in the underserved definition described above, and raising the income limit to the area median would add only tracts with low minority concentration (below 30 percent). These areas represent 8296 Census tracts, and comprise 19 percent of metropolitan population.

Low-minority moderate-income tracts have denial rates almost 30 percent below those of tracts that meet HUD's underserved definition (16 versus 22 percent). By contrast, minority moderate-income tracts have a denial rate almost identical to the overall underserved denial rate. The origination rate in moderate-income low-minority tracts (9.7) is noticeably higher than that in underserved tracts (7.0).

Table B.8 compares socio-economic conditions in low-minority moderate income tracts to those in underserved tracts. Low-minority moderate-income tracts appear

much better off than underserved tracts. While they have housing prices that are only slightly higher than those in underserved tracts, they have unemployment and poverty rates that are half those in tracts meeting HUD's underserved definition.

5. Other Issues

a. GSE Funding in Central Cities, Rural Areas, and Underserved Areas

In 1993, 15.9 percent of Fannie Mae's business was in underserved areas as was 14.4 percent of Freddie Mac's business. The share of GSE business in underserved areas varies rather dramatically by property type; about 13 percent of single-family owner purchases were in underserved areas compared with over 30 percent for the three rental property types (single-family 2-4's and 1-4's and multifamily). Thus, one reason for Freddie Mac's relatively low share is its low level of multifamily purchases in 1993.

The fact that underserved areas have much lower incomes than other areas does not mean that most of their mortgage activity derives from lower income families. In 1993, above-median income households accounted for 60 percent of the mortgages that the GSEs purchased in underserved areas. This suggests these areas are quite diverse.

b. GSE Performance Relative to the Market

As explained in Section C.4, the Secretary estimates that underserved areas account for about 21-23 percent of the conventional conforming market. GSE performance in 1993 was about 15 percent, or less than three-fourths of the market share for underserved areas. HMDA data suggests that the GSEs are particularly underperforming in lower income census tracts. In 1993, GSE purchases accounted for 44 percent of the conventional conforming market in under-50-percent income tracts and 47 percent in 50-80-percent income tracts; in above-median-income tracts, on the other hand, they accounted for 59 percent of the market.

The profitability of the GSEs, their sophisticated systems for purchasing loans, and the size of the underserved market suggest that the GSEs can improve their performance. The Secretary has therefore set annual goals of 18 percent for 1995 and 21 percent for 1996, which will encourage the GSEs to improve their performance relative to the market. Figure B.2 presents these goals in relation to the GSEs' past performance and the size of the market.

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