6. Conclusion

The Secretary has determined that the 1995 and 1996 goals will require the GSEs to address the unmet credit needs of central cities, rural areas, and other underserved areas, and take into account the GSEs' performance in the past in purchasing mortgages in these areas, as well as the size of the mortgage market. Moreover, the Secretary has considered the GSEs' ability to lead the industry as well as their financial condition. The Secretary has determined that this goal is 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, 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 mortgages originated by the market.

Appendix C—Secretarial Considerations To Establish the Special Affordable Housing Goal

A. Establishment of Goal

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA) requires the Secretary to establish a special annual goal designed to adjust the purchase of mortgages on rental and owner-occupied housing to meet the unaddressed needs of, and affordable to, low-income families in low-income areas and very low-income families.

In establishing the special affordable housing goal, the Act requires the Secretary to consider:

1. Data submitted to the Secretary in connection with the special affordable housing goal for previous years;
2. The performance and effort of the enterprises toward achieving the special affordable housing goal in previous years;
3. National housing needs of low-income families in low-income areas and very low-income families;
4. The ability of the enterprises to lead the industry in making mortgage credit available for low-income and very low-income families; and
5. The need to maintain the sound financial condition of the enterprises.

B. Underlying Data

In considering the factors under the Act to establish the special affordable housing goal, the Secretary relied upon data gathered from the American Housing Survey, the Residential Finance Survey, the 1990 Census of Population and Housing, other government reports, Home Mortgage Disclosure Act (HMDA) reports, and the GSEs. The Secretary used loan-level data provided by the GSEs to determine their prior performance in meeting the needs of low-income families in low-income areas and very low-income families.

Section C discusses the factors listed above and estimates the size of the conventional conforming market for special affordable mortgages. Section D gives the Secretary's rationale for establishing the special affordable goals.

C. Consideration of the Factors

1. and 2. Data Submitted to the Secretary in Connection With the Special Affordable Housing Goal for Previous Years and Previous Performance and Effort of the GSEs

The discussions of these two factors have been combined because they overlap to a significant degree. The proposed regulation would revise the special affordable housing goal based on the experience of HUD and the GSEs in the transition period, in accordance with FHEFSSA and the legislative history of the Act.[1] For the 1993–94 transition period, the goal requires purchases of special affordable mortgages of at least $2 billion for Fannie Mae and $1.5 billion for Freddie Mac, evenly divided between single family mortgages and multifamily mortgages, and the Senate report states that such amounts shall be ''above and beyond existing performance and commitments.''[2] In order to determine existing performance, the Secretary required the GSEs to submit good faith estimates of their mortgage purchases that would have qualified for the special affordable goal in 1992. Fannie Mae estimated that such transactions amounted to $5.85 billion in single family purchases and $1.34 billion in multifamily purchases. Freddie Mac estimated that such transactions amounted to $5.19 billion in single family purchases and $0.02 billion in multifamily purchases. The Department doubled these estimates of 1992 purchases and added the increments specified by the Act to obtain the 1993–94 minimum single family special affordable housing goals; $16.40 billion for Fannie Mae, of which at least $12.71 billion was required to be purchases of mortgages on single family housing and $3.68 billion was required to be purchases of mortgages on multifamily housing; and $11.92 billion for Freddie Mac, of which at least $11.13 billion was required to be purchases of mortgages on single family housing and $0.79 billion was required to be purchases of mortgages on multifamily housing.

On March 1, 1994 Fannie Mae reported that qualifying mortgage purchases in 1993 amounted to $8.84 billion single family and $2.06 billion multifamily; thus in 1993 Fannie Mae achieved 70 percent and 56 percent respectively of the two-year goals. On March 1, 1994, Freddie Mac reported that qualifying mortgage purchases in 1993 amounted to $6.60 billion single family and $0.02 billion multifamily.[3] Thus in 1993 Freddie Mac achieved 59 percent and 3 percent respectively of the two-year goals. Freddie Mac's low multifamily performance in 1993 was due to its prolonged absence from the multifamily market to restructure its multifamily operations. Freddie Mac fully completed reentry into the multifamily business in December 1993. Total performance toward the 1993–94 special affordable goals will be determined after the GSEs report on their 1994 special affordable purchases on March 1, 1995.

After the 1993–94 transition period, the Act states that this goal shall be established at not less than one percent of the dollar amount of the mortgage purchases by the enterprise for the previous year. Because the Senate report on the 1992 Act states that one of the purposes of the goal is to increase the GSE's purchases of mortgages serving low-income families ''above and beyond'' their existing performance, these one percent minimum goals serve as a floor for the setting of the 1995–96 goals.

The 1992 Act requires the Secretary to ''establish a special annual goal designed to adjust the purchase by each enterprise 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.''[4]

For 1995 and thereafter, the special affordable housing goal is evenly divided between:

(1) Owner-occupied units affordable to very low-income families or to low-income families in low-income areas; and

(2) Rental units (multifamily or single-family) affordable to very low-income families.

The Department has simplified the multifamily special affordable housing subgoal, as described in the Interim Notice, substantially, while closely adhering to the language of the 1992 Act.

The Department is also proposing to revise the Interim Notices' treatment of refinancings of loans from the existing enterprises' portfolios. Under this provision of the Notices, the Department has not allowed any credit toward the special affordable housing goal during the transition period. This has imposed significant compliance burdens on the enterprises, requiring time-consuming and costly examinations of their mortgage purchases to screen out such refinancings or to estimate the volume of refinancings from the GSEs' portfolios. And this provision is contrary to the common method of financing multifamily properties by relatively short-term balloon mortgages, which by their nature must be refinanced frequently to maintain project viability.

With regard to single family loans, it has been argued that refinancings of mortgages from the GSEs' portfolios add no new financing for affordable housing. But, to the extent that this is the case, it is true for all refinancings, not solely refinancings from the GSEs' portfolios. Clearly Congress could have excluded all refinancings from receiving credit toward the special affordable housing goal, but it chose not to do so.

Thus in measuring past performance, the relevant data is the GSEs' special affordable purchases without excluding estimated refinancings from their own portfolios.

[1] ''After the experience of the first two years, the (regulator) may redesign the categories to target more effectively low-income family needs and reflect any gaps in GSE performance.'' S. Rep. No. 102–282, 102d Cong., 2d Sess. 37 (1992).

[2] S. Rep. No. 102–282, 102d Cong., 2d Sess. 36 (1992).

[3] Minor revisions were made in Freddie Mac's estimates on April 11, 1994.

[4] Section 1333(a)(1).