units and 9 percent of units constructed in the preceding three years. The data for recently completed units underestimate the affordable percentage of rental housing because they exclude purchase and refinance transactions involving older buildings, which generally charge lower rents than newly-constructed buildings.

The other pertinent data for examining this issue were the GSEs' purchase data for rental properties. GSE data for all 1–4 unit properties (i.e., combining 2–4 units and investment 1–4 units) suggest a VLI share of slightly over 20 percent, which is similar to the figure (20 percent) from the AHS for the recently completed stock. On the multifamily side, Fannie Mae's data suggest a 42 percent VLI share, which is consistent with the AHS estimate for existing properties.[21] [22]

This section applies weights for single-family rental and multifamily properties to the above estimates of the VLI share.

To calculate the size of the potential market for mortgages financing housing for VLI families, data on the number of owner-occupied dwelling units, rental units in 1–4 unit properties, and rental units in multifamily properties are necessary. As Appendix A explains, HUD utilized data from the 1991 Residential Finance Survey on the number of properties with conventional conforming mortgages acquired during the 1987–91 period, and the total number of dwelling units for each type of property, derived from the same source. Based on this data, it was estimated that, of total dwelling units in properties with recently acquired conventional conforming mortgages, 56.5 percent were owner-occupied units, 17.9 percent were in 1–4 unit rental properties, and 25.6 percent were located in multifamily rental properties. Applying the percentages of affordable dwelling units from the AHS (12.9 percent for owner-occupied dwelling units, 20 percent for the recently-completed stock of rental 1–4 units, and 41 percent for multifamily rental units) to these percentages of properties results in an estimate that 21.4 percent of the dwelling units secured by conforming conventional mortgages are affordable to very low-income families or low-income families in low-income areas.[23]

Appendix A notes that one concern with the Residential Finance Survey data is the seemingly high percentage share of rental properties, given that multifamily mortgage originations have declined from their high levels in the mid- to late-1980s. This is important because of the relatively high VLI share for multifamily properties. Sensitivity analysis is used to show the effect of shifting the relative importance of the different property categories. Reducing the multifamily weight from 25.6 percent to 20 percent, and assuming the owner category is 65 percent and the rental 1–4 category is 15 percent reduces the estimate of the size of the special affordable market to 19 percent. As noted earlier, the 20 percent estimate of the VLI share for rental 1–4 units is probably too low because it is based on AHS data for the recently completed stock. Assuming a 30 percent VLI share increases the special affordable market share from 19 to almost 21 percent. Using the AHS figure (54 percent) for the existing stock further increases the special affordable market share to 24 percent.

b. HMDA/Market Projection Approach

This approach follows the same six steps as outlined in Section C.4 of Appendix A. In steps (5) and (6), the low-mod shares are adjusted as follows:

(5) Estimates of the percentage of dwelling units occupied by very low-income (VLI) families or low-income families in low-income areas were: 11.8 percent for single family owner-occupied purchase mortgages and 6.9 percent for single family owner-occupied refinance mortgages based on 1993 HMDA data; and 20 percent for single family 2–4's, 30 percent for single family 1–4's, and 42 percent for multifamily. The VLI percentages for the single-family rental categories were based on 1993 GSE data and the VLI percentage for multifamily properties was based on 1993 Fannie Mae data and AHS data for the existing multifamily stock.[24]

(6) Applying the above VLI shares to the property type weights given in step (4) of Section C.4.b of Appendix A suggests that 19 percent of mortgage originations in 1995 will be on housing for very low-income families or low-income families in owner-occupied housing located in low-income census tracts.

Sensitivity analyses similar to those reported in Appendix A for the low-mod goal were also conducted for the special affordable goal. Substituting the lower single-family owner-occupied shares from 1992 HMDA data—9.5 percent for purchase mortgages and 5.3 percent for refinance mortgages—reduced the special affordable market share from 19.1 percent to 17.5 percent. Adjusting 1993 HMDA data for HUD's overprojection of 1993 area median incomes (see Appendix A for explanation) also produced a 17.4 percent market share.

c. Conclusions

Sensitivity analyses were conducted for the market shares of each property type, for the VLI shares of each property type, and for various assumptions in the market projection model, as discussed in Appendix A.[25] These analyses suggest that the size of the special affordable market is at least in the 17–20 percent range.[26]

D. Determination of the Special Affordable Housing Goal

The annual goal for 1995 for each GSE's purchases of conventional mortgages under the special affordable goal is established at 11 percent of the total number of dwelling units financed by each GSE's mortgage purchases. The 1996 goal is established at 12 percent. Each annual goal is to be split equally between:

(a) *Owner-Occupied Units*—Owner-occupied units which are occupied by very low-income families or households who are low income and also live in low-income census tracts. This portion of the goal will be 5.5 percent in 1995 and 6.0 percent in 1996.

(b) *Rental Units*—Rental units which are occupied by very low-income families. No distinction is made between single-family and multifamily rental units because both provide affordable housing to lower income families. This portion of the goal will be 5.5 percent in 1995 and 6.0 percent in 1996.

The special affordable goal provides the opportunity for the Department to focus the GSEs on a sector where they have been underperforming—the low- and very low-income portion of the housing market where housing needs are great. Several considerations, many of which have been reviewed in earlier sections of this Appendix, led to the choice of these goals.

1. Severe Housing Problems

The data presented in Section C.3 demonstrate that housing problems and needs for affordable housing are much more pressing in the lowest income categories than among moderate-income families. The high incidence of severe problems among the lowest-income renters reflects severe shortages of units affordable to those renters. At incomes below 30 percent of median, two-thirds of owners and 70 percent of renters pay more than 30 percent of their income for housing, live in inadequate housing, or are crowded. As the following table shows, priority problems—paying more than half of income for housing or living in severely inadequate housing—are heavily concentrated among renters with incomes below 50 percent of median.

[21] The very low-income shares were calculated separately for the GSEs' 1993 refinance and purchase mortgages. The estimates for 1995 were derived by assuming a 18 percent refinance share for small rental properties. The estimates were not very sensitive to reasonable variations in the refinance share.

[22] Freddie Mac's multifamily purchases in 1993 were insufficient to provide an accurate measure of rents for multifamily properties.

[23] 21.4 percent was derived by adding the following: (1) 7.3% (percentage of owner-occupied units [56.5%] times percentage of those units that are affordable to very low-income families or low-income families in low-income areas [12.5%]); (2) 3.6% (percentage of rental units in 1–4 family properties [17.9%] times percentage of those units that are affordable to very low income families [20%]); and (3) 10.5% (percentage of rental units in multifamily properties [25.6%] times percentage of those units that are affordable to very low income families [41%]).

[24] As Appendix A explains, there is little data on the affordable shares for the two single-family rental property types, which necessitated using the GSE data. Assuming a 18 percent refinance share, Fannie Mae's 1993 data suggest VLI percentages for 2–4 and 1–4 properties of 21 percent and 28 percent, respectively. Freddie Mac's data suggest VLI percentages of 18 percent and 30 percent, respectively. The American Housing Survey, which combines these two categories, shows a 20 percent VLI share for recently built 1–4 rental units and a 54 percent VLI share for the existing stock. In step (5) the 2–4 VLI share (20 percent) and the 1–4 VLI share (30 percent) are based on GSE data, which are probably conservative estimates for the overall 2–4 market. The multifamily VLI percentage (42 percent) is consistent with both the AHS and Fannie Mae's data.

[25] For example, reducing the average per unit multifamily loan amount from $32,500 to $30,000 and raising the VLI share of the rental 1–4's from 30 percent to 40 percent increases the special affordable market share estimate from 19.1 percent to 20.4 percent.

[26] Also see Appendix A, for a discussion of why the HMDA data reported in this section may be underestimating the size of the lower income market.