

PRIORITY PROBLEMS BY INCOME AS PERCENT OF MEDIAN INCOME AND TENURE, 1991

Income (percent)	Renters (percent)	Owners (percent)
<30	48	37
30-50	27	9
50-60	11	5
60-80	6	5
80-100	3	3

Lack of housing is particularly severe among very low-income families with three or more children, 44 percent of whom live in crowded housing. The relative decline in low-rent dwelling units has been concentrated among the least expensive rental units—those with rents affordable to families with incomes below 30 percent of median income. In 1979 the number of units in this rent range was 28 percent less than the number of renters with incomes below 30 percent of area median income, but by 1989 the gap had widened to 39 percent, a shortage of 2.7 million units.

2. GSE Performance and the Market

Limitations of the Low-Mod Goal. The low- and moderate-income goal has not been an effective tool for targeting GSE activity to very low-income families. The bulk of the

GSEs' low- and moderate-income mortgage purchases are for the higher income portion of the low-mod category. The lowest income borrowers accounted for a very small percentage of each GSE's purchases. Only 5 percent of the GSEs' 1993 mortgage purchases financed homes for single-family homeowners with incomes below 60 percent of area median. (See Figure A.1 in Appendix A.)

GSE Performance Lags the Market's Performance. Analysis of both American Housing Survey and HMDA data show that the GSEs are purchasing much smaller proportions of very low-income loans produced by the market than they are of higher-income loans. (See Figure A.2 in Appendix A.) For example, in 1993 the GSEs collectively purchased only 41 percent of mortgages originated for borrowers under 60 percent of median income, but 55 percent of mortgages originated for borrowers over 120 percent of median income. This suggests that there is room in the very low-income end of the homebuyer market for the GSEs to improve their performance.

As explained in Section C.6, the Secretary has determined that the very low-income market for both single family and multifamily mortgages is at least 17-20 percent of the overall conventional conforming market. Figure C.1 compares recent GSE performance, the 1995 and 1996 special affordable goals, and the size of the very low

income market. In 1993, both Fannie Mae and Freddie Mac fell far short of the 17 percent market share for special affordable mortgages—Fannie Mae by 8 percentage points and Freddie Mac by 10 percentage points. The goals that the Secretary has established for 1995 and 1996 are intended to move the GSEs closer to the market.

Freddie Mac's Multifamily Performance. Nowhere has GSE performance lagged more than Freddie Mac's multifamily performance. Freddie Mac's 1993 multifamily purchases totaled only \$191 million, compared with \$4.6 billion for Fannie Mae and \$28.5 billion for the conventional market. HUD is concerned about the pace of Freddie Mac's re-entry into the multifamily market.

Changing Market Conditions. As Section D in Appendix A notes, several market factors will tend to increase the share of GSE purchases benefitting lower income households: the shift from refinance to home-purchase mortgages, the increase in multifamily activity at the same time that single-family activity is declining, continued strong housing demand on the part of first-time homebuyers, and rising incomes due to economic growth. These market factors will offset other market changes, such as higher interest rates, that tend to reduce the share of GSE purchases going to lower income families.

BILLING CODE 4210-32-P