

- HUD's Affordable Housing Regulations -

**New Housing Goals for  
Fannie Mae and Freddie Mac  
2005 - 2008**

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# I. Background

- **Goal Definitions.** The three housing goals are:
  - **Low- and Moderate-Income Goal:** Families with incomes at or below the area median income;
  - **Special Affordable Housing Goal:** Very low income families (below 60% of area median income), and low-income families in low-income areas (below 80% of area median income);
  - **Underserved Areas Goal:** Families living in low-income census tracts or low- or middle-income census tracts with high minority populations.
- A loan can count in more than one goal category.

# I. Background

- **Goals are expressed in percentage terms, as the minimum share of housing units financed by the GSEs in a particular year. Goals include both single-family and multifamily mortgages, both purchased loans and refinancings.**

**NOTE:** The low- and moderate-income goal is expressed in terms of the family's income; the underserved areas goal is set by location; the special affordable housing goal is based partly on income and partly on location.

# I. Background

- **Factors Considered.** The GSE Act requires HUD to consider certain factors in setting goal levels:
  - The shares of the primary mortgage market corresponding to each of the categories of borrowers and locations targeted by the goals;
  - The GSEs' past performance on the goals;
  - The ability of the GSEs to lead the industry in making mortgage credit available for targeted borrowers and locations;
  - National housing needs; economic, housing, and demographic conditions; and
  - The need to maintain the sound financial condition of the GSEs.

# I. Background

- **Both GSEs have met all the goals each year since 1995.**
- **For 2001-2003, HUD awarded bonus points to both GSEs, and an adjustment factor to Freddie Mac, for purchases of multifamily projects.**
- **Without them, the GSEs would have failed to meet all of the goals in 2001 and 2002, with one exception – Fannie Mae achieved the Special Affordable Housing Goal in 2001 without bonus incentives.**
- **HUD did not renew the bonus points and temporary adjustment factor for 2004.**

## II. Summary of HUD's GSE Proposed Rule

- For 2005 there are three main changes relative to the current rule:
  - Goals levels are significantly higher than HUD's goals for 2001-2004;
  - The proposed goal levels rise in nearly equal steps from year-to-year. This staging will allow the GSEs time to adjust their business models to meet the required levels.
  - HUD is proposing to establish Home Purchase Subgoals under each housing goal.

## II. Summary of HUD's GSE Proposed Rule

Housing Goals	Current Goals 2001-2004	Proposed Housing Goals				HUD's Estimate of Market share
		2005	2006	2007	2008	
Low- and Moderate- Income	50%	52%	53%	55%	57%	57%
Special Affordable Housing	20%	22%	24%	26%	28%	28%
Underserved Areas	31%	38%	39%	39%	40%	40%

By 2008 the goals will be at the upper end of HUD's projected 2005-08 market share range.

## II. Summary of HUD's GSE Proposed Rule

Coincidentally, HUD's 2005-2008 estimates of market share are very close to HUD's calculation of actual market shares for 1999-2002.

<b>Housing Goals</b>	<b>HUD's Calculation Of Market Share 1999-2002</b>	<b>Current Goals 2001-2004</b>	<b>HUD's Estimate of Market Share 2005-2008</b>
<b>Low- and Moderate-Income</b>	<b>56%</b>	<b>50%</b>	<b>57%</b>
<b>Special Affordable Housing</b>	<b>28%</b>	<b>20%</b>	<b>28%</b>
<b>Underserved Areas</b>	<b>39%</b>	<b>31%</b>	<b>40%</b>

The goals have been set below the market since the statute was enacted in 1992.

## **II. Summary of HUD's GSE Proposed Rule**

- **HUD's proposed increase from 31% to 38% for the Underserved Area Goal incorporates effects of 2000 Census data, which includes more underserved tracts than the 1990 Census data upon which the current goal level is based.**
- **Therefore, a 36% goal level for 2005 would be equivalent to the 31% goal level in 2001-04.**

## II. Summary of HUD's GSE Proposed Rule

### HUD'S DEFINITION OF THE "MARKET"

- Includes conventional single-family-owner mortgages within the conforming loan limit, which is currently \$333,700
- Includes A-minus loans in the subprime market
- Includes single-family rental loans
- Includes multifamily loans
- Excludes, FHA, VA and Rural Housing Service loans
- Excludes subprime loans other than A-
- Excludes loans with principal amounts above the conforming loan limit (i.e., jumbo loans)

## II. Summary of HUD's GSE Proposed Rule

All of these goals represent increases from the GSEs' average performance in 1999-2002, which was:

Housing Goal	Fannie Mae	Freddie Mac
Low- and Moderate-Income	49%	47%
Special Affordable	20%	19%
Underserved Areas	35%	33%

These percentages exclude effects of the bonus points and the Freddie Mac temporary adjustment factor that were available to the GSEs in 2001-2002.

The Underserved Area percentages include effects of the 2000 census. 11

## II. Summary of HUD's GSE Proposed Rule

### PROPOSED HOME PURCHASE SUBGOALS

- The Department is also proposing to establish Home Purchase Mortgage Subgoals in metro areas for 2005-08.
- The GSEs should lead the market in home purchase loans, but they don't.
- Numerous studies by HUD and other researchers have shown that the GSEs have lagged the home purchase mortgage market in funding affordable loans in recent years. However, they should be able to play a true leadership role in this market.

## II. Summary of HUD's GSE Proposed Rule

### The GSEs and First-Time Homebuyers

- Both GSEs are weak in serving first-time homebuyers of any race.
- The GSEs are particularly weak in serving African-American and Hispanic first-time homebuyers.

# First-time Homebuyer Shares

1999-2001 Averages	Fannie Mae	Freddie Mac	Conventional Conforming Market
All First-Time Homebuyers	26.5% <sup>1</sup>	26.5%	37.6% <sup>2</sup>
African-American and Hispanic First-Time Homebuyers	4.0%	3.4%	6.9%
Minority First-Time Homebuyers	6.6%	5.8%	10.6%

## Interpretations:

1. First-time homebuyer mortgages were 26.5% of all home purchase mortgages purchased by Fannie Mae in 1999-2001.
2. First-time homebuyer mortgages were 37.6% of all home purchase mortgage originations in the conventional conforming market during 1999-2001.

## **II. Summary of HUD's GSE Proposed Rule**

- The Home Purchase Subgoal categories would be the same as those for the overall goals.**
- Subgoal levels will also increase incrementally over the period 2005-08.**

## II. Summary of HUD's GSE Proposed Rule

Home Purchase Subgoals	Current Subgoals 2001-2004	Proposed Subgoals			
		2005	2006	2007	2008
<b>Low- and Moderate-Income</b>	NONE	<b>45%</b>	<b>46%</b>	<b>47%</b>	<b>47%</b>
<b>Special Affordable Housing</b>	NONE	<b>17%</b>	<b>18%</b>	<b>19%</b>	<b>19%</b>
<b>Underserved Areas</b>	NONE	<b>33%</b>	<b>34%</b>	<b>35%</b>	<b>35%</b>

For example, 45% of all single-family, owner-occupied home purchase mortgages bought in metro areas by each GSE in 2005 would have to be for low-and moderate-income families.

## II. Summary of HUD's GSE Proposed Rule

- **There is no requirement for TOTAL home purchase business. Whatever number of home purchase loans the GSEs buy, a certain percentage must be in each goal category.**

### **For example:**

- **If a GSE buys 1 million home purchase loans in 2005, then 450,000 must be for low- and moderate-income families.**
- **If a GSE buys 100,000 home purchase loans in 2005, then 45,000 must be for low- and moderate-income families.**

## II. Summary of HUD's GSE Proposed Rule

### Goal-Qualifying Home Purchase Mortgage Market Shares in Metropolitan Areas, 1999-2002

Subgoal	1999	2000	2001	2002	Average
Low- and Moderate-Income	44.0%	43.7%	41.6%	43.1%	43.1%
Special Affordable	17.1%	17.0%	15.4%	15.7%	16.3%
Underserved Areas	30.7%	32.2%	30.9%	32.3%	31.5%

### **III. Impact**

- **The GSEs have been increasing their purchases of loans for low-income families and in underserved areas. Under the new goals and subgoals, the GSEs' performance will continue to improve.**
- **As described earlier, the GSEs have lagged in funding mortgages for borrowers on the margin of homeownership. Under the new goals and subgoals, the GSEs will fund more loans for these prospective homeowners. Many low-income and minority first-time homebuyers will benefit from low, prime market interest rates.**

### **III. Impact**

- **The GSEs will have to make prudent adjustments in their underwriting standards to reach out to low-income and minority first-time homebuyers.**
- **In general, loans that qualify for the housing goals are more likely to be for first-time homebuyers, minorities, and borrowers requiring low downpayments.**
- **A large proportion of loans that the GSEs have purchased are for other categories of borrowers.**

### **III. Impact**

- **HUD's proposed goals and subgoals will result in higher proportions of loans for these targeted groups.**
- **The new goals may also cause the GSEs to increase their purchases of mortgages on single-family and multifamily rental properties.**
- **HUD's Home Purchase Subgoal will support President Bush's initiative to create 5.5 million new minority homeowners by the year 2010.**

## IV. Other Issues

### New GSE Data Integrity Provisions

HUD is proposing to:

- Establish a certification requirement for certain GSE reports;
- Refine the process for resolving data errors, omissions, or discrepancies identified by HUD in current year-end data;

## IV. Other Issues

### New GSE Data Integrity Provisions *(continued)*

- Clarify that HUD may adjust a GSE's goal performance for the current year to correct for overstatements in housing goal performance reported in a previous year
- Reaffirm HUD's authority to take enforcement action against the GSEs (i.e., by cease-and-desist order, civil money penalties or other authorized action) for submission of non-current, inaccurate, or incomplete reports, data or information.

## IV. Other Issues

### Issues for Public Comment

- **Low Doc/No Doc loans sometimes do not have income data.**
  - **HUD asked for comments on how to estimate borrowers' incomes so these loans could count towards the goals.**
- **HUD also asked for comments on whether it should reconsider its definition of mortgage acquisitions or changes to other counting rules that determine goals eligibility.**

## **v. Rulemaking Schedule**

- **The Proposed rule was published on May 3, 2004.**
- **HUD extended the 60-day comment period, which was scheduled to end on July 2, 2004, to July 16 to allow commenters an additional two weeks to review the proposals.**
- **The final rule will be published in the Federal Register by November and will become effective on January 1, 2005.**
- **HUD's Proposed Rule and the Regulatory Analysis are available for viewing and printing on HUD's website at:**

**[www.hud.gov/offices/hsg/gse/gse.cfm](http://www.hud.gov/offices/hsg/gse/gse.cfm)**