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THE GSEs' PURCHASES OF SINGLE-FAMILY RENTAL PROPERTY MORTGAGES

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I. Introduction and Main Findings

Based on the 1995 American Housing Survey (AHS), 62 percent of all rental units are in structures with fewer than five units. These structures are the "mom and pop shops" of the rental market, meaning they are small and largely individually owned and managed. The wide diversity of property owners and locations is one reason for the lack of information on this segment of the rental market.[1]

Single-family rental housing is an important part of the housing stock because it serves lower income households. In this sense, single-family rental units are similar to multifamily rental units. According to the 1995 AHS, approximately 49 percent of multifamily units are affordable to very-low income families (i.e., families earning 60 percent or less of the area median income) compared with 57 percent of single-family rental units.

Fannie Mae and Freddie Mac are the two major Government Sponsored Enterprises (GSEs) in the secondary mortgage market. Around 34 percent of the single-family rental units that they finance are affordable to very-low-income households, compared to 39 percent of the multifamily units they finance.

While single-family rental properties are a large and important segment of the rental stock for low-income families, they make up a small portion of the GSEs' overall business. In 1996, Fannie Mae and Freddie Mac purchased more than $11 billion in mortgages for these properties. These purchases represented 8 percent of total single-family units financed by the GSEs and 4 percent of the total dollar volume of their overall 1996 business.

The percentage of single-family rental units financed by the GSEs is much smaller than the percentage of single-family rental units in the housing stock. The distribution of single-family housing units from the 1995 AHS and the distribution of single-family units financed by the GSEs in 1995 and 1996 are provided in Table 1. Of the housing units in 1- to 4-family structures, 73 percent are one-family owner-occupied units, and the remaining 27 percent of units are in rental properties. Of the GSEs' purchases, more than 90 percent are one-family owner-occupied housing units and less than 8 percent are rental units in 1- to 4-unit properties. Therefore, the GSEs have not penetrated the single-family rental market to the same degree that

[1] The 1995-1996 HUD-sponsored national survey of property owners and managers (POMs) provides information on many aspects of the rental market which previously were not available. The characteristics of individual rental property owners as captured by the POMs survey are summarized in The State of the Nation's Housing, 1997, Joint Center for Housing Studies, Harvard University, 1997.

they have penetrated the owner-occupant market.[2]

There could be many reasons why the rental side of the secondary mortgage market is not as developed as the owner side. These include, for example, the “mom and pop” nature of the business which makes standardization and securitization difficult, higher default rates on single-family rental properties, and local lenders having more information about the actual value of these small, heterogeneous investment properties than the secondary market agencies that deal on a nationwide basis. Regarding the latter, local lenders may be able to make prudent loans, even if they do not conform to the GSEs’ standardized underwriting guidelines, and make profits by holding these loans in their portfolios.

This analysis of GSEs' single-family rental mortgage purchases uses data provided by National File B of the Public Use Data Base (PUDB) which has been released by HUD covering the GSEs’ mortgage purchases in 1993-1996. The National File B reports data in terms of housing units instead of mortgages. Therefore, the reader should keep the following in mind. For investor 1-unit properties, analyses based on units and mortgages are equivalent. However, for 2- to 4-unit rental properties, information is generally presented in terms of number of units in the rental property.

Section 2 provides basic data on the GSEs’ purchases. Section 3 looks at neighborhood, affordability, and borrower characteristics of their mortgage purchases. Section 4 discusses financial characteristics. Concluding remarks are provided in Section 5. Three appendices are provided. The first provides background on the housing stock as estimated by the American Housing Survey. The second provides definitions and discusses missing data. The third summarizes the recent initiatives the GSEs have undertaken to promote single-family rental lending.

Main Findings. This paper has several main findings with respect to the GSEs' single-family rental purchases.

(1) Small Part of the GSEs’ Business. Single-family rental properties represent a small part of the GSEs' total business. In 1996, Fannie Mae purchased $7.3 billion of these mortgages, accounting for 4 percent of its total mortgage purchases. Freddie Mac purchased $4.3 billion, accounting for 3 percent of its total mortgage purchases. Furthermore, a comparison of the housing stock and units financed by the GSEs indicates that the GSEs are financing a proportionally smaller percent of single-family rental units than the units in the housing stock. This raises the issue of whether the GSEs could be more active in financing single-family rental properties.

[2]This is indicated by 1995 Home Mortgage Disclosure Act (HMDA) data which show that the GSEs financed 43 percent of the market for mortgages on one-family owner-occupied properties and only 23 percent of the single-family non-owner (investor) market.

(2) Trends in GSEs' Purchases. Between 1993 and 1995, the GSEs' single-family mortgage purchases fell, mostly due to increasing interest rates and declining mortgage originations and refinances. Since the GSEs' mortgage purchases for single-family rental properties decreased at a smaller rate than their one-family owner-occupied mortgage purchases, single-family rental properties made up an increasing percentage of the GSEs' overall single-family business during this period. However, in 1996, the GSEs' one-family owner-occupied business increased by 33 percent while their rental business remained around its 1995 level. As a share of the single-family GSEs' business, single-family rental properties fell from 6 percent in 1995 to 5 percent in 1996.

(3) Important for Housing Goals. Single-family rental properties are important for the GSE housing goals, especially for meeting the needs of lower income families. In 1996, around 83 percent of single-family rental units qualified for the low-moderate income goal, compared with 35 percent of one-family owner-occupied properties. This heavy focus on lower income families meant that single-family rental properties accounted for 11 percent of the units qualifying for the low-moderate income goal, even though they accounted for only 7 percent of the total units financed by the GSEs. Single-family rental units accounted for 14 percent of the geographically-targeted and 23 percent of the special affordable housing goals.

(4) Secondary Market Penetration. The relatively small penetration by the GSEs of the single-family rental market could be due to a number of factors that have limited the development of a secondary market for these mortgages. Because of the wide spatial dispersion of properties and owners, as well as a wide diversity of characteristics across properties and individuality of owners, little is collectively known about these properties. This makes it difficult for lenders to properly evaluate the probability of default and severity of loss for these properties. This area needs further research in order to determine the appropriate role for Fannie Mae and Freddie Mac in this market.

(5) Borrower and Neighborhood Characteristics. A comparison of the GSEs' single-family rental and one-family owner-occupied mortgage purchases reveals the following broad patterns of borrower and neighborhood characteristics. Borrowers for single-family rental properties are more likely to be minorities than borrowers for one-family owner-occupied properties. Mortgages purchased by the GSEs for single-family rental properties compared with one-family owner-occupied properties are more likely to be located in lower income and higher minority neighborhoods. More single-family rental than one-family owner-occupied mortgages were refinance or seasoned loans.

(6) Three Property Types. It is important to distinguish among the three main types of single-family rental properties: Investor 1-unit , investor 2- to 4-units, and owner-occupied 2- to 4-units. In 1996, the share of the GSEs' single-family mortgage purchases accounted for by each of the three types were as follows:

	Fannie Mae	Freddie Mac
1-unit investor	47.7%	50.7%
2- to 4-unit investor	14.1	12.7
2- to 4-unit owner-occupied	38.2	36.6
	100.0%	100.0%

Mortgage purchases for investor 1-unit properties account for nearly half of the GSEs' business. The GSEs have similar distributions of units, mortgage purchases, and UPB across property types.

Units in the different property types have very different borrower and locational characteristics. Borrowers for units in investor-owned properties (both investor 1-unit and investor 2- to 4-unit properties) are more likely to be white than borrowers for units in owner-occupied 2- to 4-unit properties. More units in investor-owned properties than units in owner-occupied 2- to 4-unit properties are located in predominately-white neighborhoods and in higher income neighborhoods. In particular, the GSEs' purchases of investor 1-unit properties are much less likely than units in other rental properties to be in underserved neighborhoods. For example, 36 percent of the GSEs' investor 1-unit properties were located in underserved areas compared with 52 percent of other rental properties.

(7) Affordability. The majority of the units in single-family rental properties financed by the GSEs are affordable to lower income households. In 1996, nearly 75 percent of all single-family rental units financed by the GSEs were affordable to families with income below the area median income (AMI), and over 30 percent are affordable to very-low-income families (i.e., families with incomes at or below 60 percent of AMI).

(8) Financial Characteristics. The GSEs can mitigate risk by purchasing mortgages which are seasoned or refinanced. The data show that mortgages on properties with additional risk components such as investor-owned, in low-income neighborhoods, and/or in high-minority neighborhoods are more likely to be seasoned or refinanced. For the GSEs' mortgage purchases, in general, mortgages on investor-owned properties are more likely to be seasoned than mortgages on owner-occupied 2- to 4-unit properties (based on unit counts). These patterns are consistent with the notion that investor properties are more risky than owner-occupied 2- to 4-unit properties.

(9) Fannie Mae Purchases Versus Freddie Mac. Fannie Mae's and Freddie Mac's purchasing behavior for single-family rental properties differ. With the exception of neighborhood income for investor 1-unit mortgages, a larger proportion of Fannie Mae's than Freddie Mac's business is in lower income and higher minority neighborhoods. Freddie Mac purchases more refinance mortgages than does Fannie Mae; Fannie Mae purchases more seasoned loans than does Freddie Mac.

II. Some Basic Facts About Single-Family Rental Housing

This section discusses the nature of single-family rental market, the GSEs' mortgage purchases, and the GSE housing goals.

A. The Nature of the Single-Family Rental Market

While single-family rental properties resemble multifamily small projects, they are financed like one-family owner-occupied properties. Single-family rental properties are securitized with other single-family mortgages, making secondary market financing for this type of mortgage more available than financing for multifamily small projects. Therefore the role of the GSEs in the single-family rental market is important for securitizing these mortgages.

There are additional risk factors associated with underwriting single-family rentals that do not exist in the one-family owner-occupied mortgage market. Diversity among owners, management, location and structures make it difficult for lenders to estimate the probability of default and severity of loss. Owners of single-family rental properties often lack the managerial and financial experience needed to successfully oversee their investments. Additional uncertainties related to performance exist between rental properties' operational costs and vacancies. Because properties are small (only 1- to 4-units), a single vacancy can account for from 25 to 100 percent of expected rental income. Finally, the relative costs associated with underwriting these properties are greater than one-family owner-occupied properties because of the additional information needed to complete the loan approval process.

B. GSEs' Mortgage Purchases and Housing Goals

This section looks at the GSEs' mortgage purchases and discusses the importance of single-family rental units to the housing goals. For the purposes of this paper, single-family rental properties are grouped by the following property types: investor 1-unit, investor 2- to 4-unit, and owner-occupied 2- to 4-unit.

GSEs' Mortgage Purchases. Table 2 provides the distributions of unpaid principal balance, number of mortgage purchases, and number of units financed by property type for each GSE in 1996. Investor 1-unit properties account for nearly 45 percent of the mortgages on single-family rental properties purchases by the GSEs. In terms of total dollars and total units, owner-occupied 2- to 4-unit properties are the most important accounting for 50 percent of UPB and 50 percent of units purchased by the GSEs (see Figure 1).

The GSEs' single-family rental business as a percent of total single-family mortgage purchases increased from 4 percent in 1993 to 6 percent in 1995; before decreasing slightly to 5 percent in 1996. The increases in the GSEs' portion of single-family rental properties in the

former period was accompanied by a decrease in the volume of single-family originations due to increasing interest rates and declining refinances. In 1996 the volume of Fannie Mae's business increased while the volume of Freddie Mac's fell. This decline was due to a decrease in Freddie Mac's purchases of investor-owned mortgages.

The GSEs' Housing Goals. Single-family rental properties are like multifamily properties because although they are a small percent of the GSEs' overall business, these properties are important for the goals. In 1996, about 83 percent of the GSEs' single-family rental units qualified for the low- and moderate-income (low-mod) goal.[3] Comparably, as shown in Figure 2, 35 percent of the GSEs' one-family owner-occupied and 91 percent of their multifamily business qualified for the low-mod goal. With regard to the overall low-mod goal, single-family units account for 11 percent. The one-family owner-occupied purchases accounted for 65 percent and the multifamily purchases accounted for 24 percent of the overall low-mod goal, as shown in Figure 3.

These same patterns held for the other two goals in 1996. For example, about 35 percent of the GSEs' single-family rental units qualified for the special affordable goal compared with 10 percent of their one-family owner-occupied purchases and 35 percent of their multifamily purchases.[4] Similarly almost one-half of the single-family rental units qualified for the geographically targeted goal, compared with one-fourth of one-family owner-occupied units and two-fifths of their multifamily units.[5,6]

III. Characteristics of Units for the GSEs' Single-Family Rental Mortgage Purchases

This section deals with a variety of topics related to the characteristics of units for mortgages purchased by the GSEs. Part A looks at neighborhood characteristics for which differences are observed for units in investor 1-unit properties and 2- to 4-unit rental properties.

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[3] All owner-occupied or rental unit financed by mortgages purchased by the GSEs which are affordable to families with incomes no more than 100 percent of area median income qualify for the low- and moderate-income goal.

[4] All mortgage purchases financing very low-income units and low-income units in low-income areas are eligible for the special affordable goal. In addition, purchases of mortgages financing low-income, multifamily rental units meeting Low-Income Housing Tax Credit eligibility thresholds count toward this goal.

[5] The geographically targeted goal is defined as follows: In metropolitan areas, mortgages on housing located in census tracts with (a) median income no greater than 90 percent of area median income (AMI); or (b) median income no greater than 120 percent of AMI and a minority population of 30 percent or greater; and in rural areas, mortgages on housing located in counties with (a) median income no greater than 95 percent of the statewide non-metropolitan or national non-metropolitan median income, whichever is greater; or (b) median income no greater than 120 percent of state non-metro income and a minority population of 30 percent or greater.

[6] In terms of importance in meeting the other two housing goals, single-family rental units made up 12 percent of the geographically targeted and 15 percent of the special affordable goals. Comparably, multifamily accounted 16 percent of the geographically targeted goal and 35 percent of the special affordable goal. One-family owner-occupied units accounted for the balance.

Part B focuses on affordability and borrower characteristics. For borrower characteristics, differences are observed for units in investor-owned properties and owner-occupied 2- to 4-unit properties.

A. Neighborhood Characteristics

The analysis of neighborhood characteristics focuses on the median income and minority composition of the census tract and on property location inside or outside of underserved areas as defined by HUD. This section compares neighborhood characteristics between one-family owner-occupied and rental properties as well as among units in the three rental property types. The relationship between neighborhood characteristics and loan types (i.e., home purchase and refinance) is also discussed for each of the GSEs.

Median Income and Minority Population. Single-family rental units are more likely to be located in lower-income neighborhoods than the GSEs' one-family owner-occupied business. In 1996, over 25 percent of the GSEs' single-family rental units were located in low-income neighborhoods (at or below 80 percent of AMI) compared with 8 percent for one-family owner-occupied properties. About 30 percent of single-family rental units were in high-minority neighborhoods (30 percent or more minority population) compared with 13 percent of one-family owner-occupied properties.

Comparing units in different types of rental properties purchased by the GSEs, investor 1-unit properties were more likely to be located in higher-income and lower-minority neighborhoods than were units in 2- to 4-unit rental properties. Neighborhood characteristics for rental units are provided in Tables 3.A-3.C. For units in investor 1-unit properties, about 17 percent were in low-income neighborhoods, compared with 31 percent for units in 2- to 4-unit rental properties. About 23 percent of investor 1-unit properties were in high-minority neighborhoods, compared with 33 percent for units in 2- to 4-unit rental properties. Units in 2- to 4-unit rental properties were commonly located in older cities where many low-income and high-minority neighborhoods are located. Investor 1-unit properties were more characteristic of suburban neighborhoods where smaller populations of minorities and higher income households reside.

A comparison of units for Fannie Mae and Freddie Mac 1996 mortgage purchases with regard to neighborhood characteristics shows the following. For investor 1-unit properties, Freddie Mac purchased more units in lower income neighborhoods than did Fannie Mae; Fannie Mae purchased more mortgages in higher minority neighborhoods than did Freddie Mac. For units in 2- to 4-unit rental properties, Fannie Mae purchased more units in lower income and higher minority neighborhoods than did Freddie Mae. A larger percentage of Fannie Mae's than Freddie Mac's rental purchases were in neighborhoods that are both lower income and higher minority.

Underserved Areas. Fannie Mae and Freddie Mac mortgage purchases in underserved areas for each of the three property types in 1996 are provided in Tables 3.A-3.C.[7] Two points stand out. First, and not surprisingly, investor 1-unit properties were less likely than were units in 2- to 4-unit rental properties to be located in underserved areas. For example, about 37 percent of the GSEs' investor 1-unit properties were located in underserved areas compared with over 50 percent of the units in 2- to 4-unit rental properties. Second, Fannie Mae's 2- to 4- unit rental business was more likely than Freddie Mac's to be drawn from underserved areas. For example, in 1996, 55 percent of Fannie Mae's units in 2- to 4-unit mortgage purchases were located in underserved areas compared with 50 percent for Freddie Mac.

Home Purchases and Refinances. In general, a comparison of units for home purchase mortgages and for refinance mortgages shows that in 1996 the GSEs' home purchase business in low-income and high-minority neighborhoods was slightly lower than their corresponding refinance business. For example, using units for Freddie Mac's owner-occupied 2- to 4-unit properties in Table 3.C, 28 percent of home purchases were in neighborhoods with median income at or below 80 percent of AMI, compared to 32 percent for refinanced units. Conversely, for Freddie Mac purchases in neighborhoods with median incomes above 120 percent of AMI, 19 percent are home purchases and 16 percent are refinances. Since refinance mortgages generally have lower LTV ratios than home purchase mortgages and have borrowers with established mortgage payment histories, these loans are less risky than home purchase mortgages. Purchasing units that are refinanced may be one way the GSEs hedge the increased defaults associated with properties in lower income neighborhoods.

A few factors unique to lower-income areas may further explain the larger percent of refinance than home purchase rental mortgages in these areas. Rental units in lower income neighborhoods may have a greater likelihood of experiencing little or no price appreciation.[8] Owners of these rental units may be more likely to experience a loss when selling. Consequently, they may choose instead to continue holding the mortgages on single-family rental properties and to refinance when interest rates are favorable. This may result in a lower turnover in lower income neighborhoods compared with units in higher-income neighborhoods and would be one explanation for the lower home purchase rates in lower income compared with higher-income neighborhoods.

A similar relationship exists between refinance and home purchase mortgage purchase volumes by neighborhood minority population as by neighborhood income level. From Table

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[7] Underserved refers to those areas that qualify for the geographically targeted goal.

[8] Despite the importance of this issue, there has been surprisingly little work done on the question of house price appreciation for lower-cost houses. One exception is Pollakowski, Stegman, and Rohe [1991] who used American Housing Survey data for five metropolitan areas to contruct hedonic house price indexes by property value classes. They found for the period 1974 through 1983 that mean appreciation rates for the lower-valued segments of these markets were generally equal to those for the upper-valued segment.

3.A, 35 percent of Fannie Mae's refinance, investor 1-unit mortgage purchases are in predominately-white neighborhoods (with less than 10 percent minority population), compared with 42 percent for its home purchases.

B. Affordability Characteristics

Rent affordability is based on the relationship between unit rents and area incomes where rental units are located. The GSEs do not provide information on renters' income but are required to report unit rents to HUD. A rental unit is considered to be "affordable" by a family earning the median income if rent plus utilities is no more than 30 percent of area median income (AMI).[9] Rent affordability levels are defined relative to this criterion. For example, an affordable rent at 60 percent of AMI is one which does not exceed 18 percent (which is 30 percent times 60 percent) of AMI.

Tables 4.A-4.C provide affordability data for the GSEs' purchases in 1996. The percentage of affordable units varies by property type. Over 80 percent of units in investor 1-unit properties are affordable to families with incomes below the area median and nearly 30 percent are affordable to very-low-income households. Comparably for units in 2- to 4-unit properties, 93 percent are affordable to families with incomes below the area median and 44 percent are affordable to very-low-income families.

C. Borrower Characteristics

In this section, the focus is redirected away from renter characteristics toward borrower, or owner, characteristics. Borrower race/ethnicity characteristics are provided in Table 5.

A comparison among property types shows the following. First, based on ethnic/racial characteristics, borrowers for investor-owned properties are similar to borrowers for one-family owner-occupied properties. Second, borrowers for single-family rental properties, especially owner-occupied 2- to 4-unit properties, are more likely to be nonwhite than are borrowers for one-family owner-occupied and investor-owned rental properties. About 32 percent of the borrowers for owner-occupied 2- to 4-unit properties are nonwhite, compared with around 16 percent for both one-family owner-occupied and investor-owned properties. For one-family owner-occupied and investor-owned properties about 4 percent of borrowers are African American, compared with 9 percent for owner-occupied 2- to 4-unit properties. A similar comparison applies for Hispanic borrowers, 5 percent and 13 percent, respectively.

[9]These percentages are adjusted upwards or downwards for units with more or fewer bedrooms. A more detailed description is provided in the HUD's Final Rule on Regulation of Fannie Mae and Freddie Mac, Federal Register, vol. 60, p. 61894 (December 1, 1995).

IV. Financial Characteristics

This section discusses some trends in the mortgage finance market and their impact on refinances, seasoned loans, and type of seller institution for single-family rental mortgages purchased by the GSEs (provided in Tables 6.A-6.C). The impacts of refinances and seasoned loans on the probability of default and severity of loss are briefly discussed.

A. Refinances

The GSEs' refinance share of mortgage purchases on single-family rental properties is greater than for one-family owner-occupied properties. In 1996, refinances made up nearly half of the GSEs' single-family rental business, compared with 42 percent for one-family owner-occupied mortgages. The relatively lower default risk associated with refinancing compared with home purchase may be a strategy for offsetting the increased risk of default and loss due to the more complex operating and managerial tasks required to maintain single-family rental properties.

During the refinance wave of 1993, the GSEs' mortgage purchases were made up largely of refinance mortgages. For the single-family rental property mortgages, more than 70 percent were refinanced. In 1995, the refinance share of the GSEs' single-family rental mortgage purchases dropped under 45 percent mostly due to higher interest rates. In 1996, interest rates declined and the GSEs' mortgage purchases and units for refinanced mortgages increased slightly to around 50 percent.

B. Seasoned Loans

Seasoned loans, or prior year loans, for the purpose of this study, refer to those loans that were purchased by a GSE in the current year but were originated by a primary lender in a prior year. "Current year" mortgage purchases were originated by primary lenders and purchased by the GSEs in the same year.

For the seasoned loans purchased by the GSEs, two points stand out. First, since 1994 the GSEs purchase more prior year mortgages for investor-owned units than for units in owner-occupied 2- to 4-unit properties. Second, in general, Fannie Mae purchases more seasoned loans than Freddie Mac.

Between 1994 and 1996, 24 to 28 percent of the units in owner-occupied 2- to 4-unit properties were prior year mortgages purchased by the GSEs. During this period, the prior year mortgage purchases for investor-owned mortgages increased between 1994 and 1995 and declined in 1996. In 1995, more than half of investor-owned mortgages purchased by the GSEs were seasoned loans (compared with over a quarter for owner-occupied 2- to 4-unit mortgage purchases). In 1996, the GSEs' prior year purchases for investor-owned units decline for the first

time since 1993 to 35 percent for Fannie Mae and 24 percent for Freddie Mac.

In general, Fannie Mae purchases more seasoned loans than Freddie Mac. In 1993, less than 20 percent of Fannie Mae's mortgage purchases were prior year compared with less than 8 percent of Freddie Mac's. In 1994, Fannie Mae began purchasing more units originated in the prior year; Freddie Mac's did not significantly increase its prior year business until 1995.

Changes in interest rates may explain some of the changes in the GSEs' mortgage purchasing behavior. From 1993 to 1995, interest rates rose, possibly increasing the incentive of depositories to sell-off lower interest rate mortgages held in portfolio and to replace them with higher interest rate mortgages. As interest rates increased, origination volume dropped off. The GSEs may have purchased more seasoned mortgages from 1993 to 1995 to offset the effect lower origination volume had on their mortgage purchasing volume. Between 1995 and 1996, interest rates decreased slightly, and the GSEs' mortgage purchases in 1996 consisted of fewer seasoned loans compared to the previous year.

One possible explanation for the difference in seasoned loans purchases for units in investor-owned properties and owner-occupied 2-4 properties might be that investor-owned mortgages are riskier. By purchasing prior year mortgages for investor-owned units, the GSEs have more information with regard to the borrowers payment histories and changes in local house price appreciation. This may enable the GSEs to hedge default risk.

C. Type of Seller Institution

As shown in Table 6.A-6.C, in 1996, mortgage companies were the top provider of the GSEs' mortgage purchases, accounting for 58 percent of investor-owned mortgages and 68 percent of owner-occupied 2- to 4-unit mortgages. Thrifts and banks provided 20 percent and 18 percent, respectively, of the GSEs single-family rental purchases in 1996.

Between 1994 and 1996, the distribution for types of seller institutions providing mortgages to the GSEs changed. In 1993, 1994, and 1996, mortgage companies were the major supplier of single-family rental mortgages, accounting for over 60 percent of rental units purchased by the GSEs; however, in 1995, thrifts originated over 55 percent of the mortgages on investor-owned units purchased by the GSEs. In 1996, the percentage of mortgages purchased by the GSEs from thrifts dropped to 22 percent for investor-owned mortgages.

V. Future Extension of Paper

This paper provides a first look at the GSEs single-family rental business using the newly released Public Use Data Base. Another newly released data base that provides information on single-family rental properties is the Property Owners and Managers (POMs) survey, which was funded by HUD and conducted by the U.S. Bureau of the Census in the later part of 1995 and early 1996. The POMs survey consisted of two questionnaires: one for owners and managers of single-family properties and the other for owners of multifamily (2 or more unit) properties. Information collected in the survey includes the characteristics of rental units; capital improvements or upgrades made to surveyed units; characteristics of management and maintenance of rental units; characteristics of properties and neighborhoods containing rental units; characteristics of renters, vacancies and method for finding and selecting tenants; characteristics of properties' owners; acquisition information; Federal assistance; and financial characteristics of the properties. POMs provides the opportunity to perform comparisons between these surveyed properties and the unit data for the GSEs' mortgage purchases provided in the PUDB.

Appendix I

Single-Family Housing Stock as Estimated by the 1995 American Housing Survey

The single-family housing stock is largely made up of one-family owner-occupied housing (74 percent). One-unit rental structures make up 15 percent of the single-family housing stock. Units in duplexes, triplexes, and quadraplexes account for the remaining 12 percent. The different locational and property characteristics of units in single-family structures are discussed below. Tables A.1-A.3 provide distributions by age, location, and region for the units which make up the single-family housing stock.

Based on the 1995 American Housing Survey (AHS), the following facts are known about the units in the single-family housing stock. The housing stock for one-family owner-occupied structures and 1-unit rental structures were largely located in suburbs, while the units in other single-family rental structures were largely in central cities. Most 1-unit structures (both one-family owner-occupied and rental) were located in the South. The stock of units in 2- to 4-unit rental structures was located largely in the Northeast. Over half of rental housing was built before 1960 and most of one-family owner-occupied units was built after 1960. The majority of housing units in the suburbs were constructed after 1960 and the majority of housing units in the central cities which were built before 1960. The largest stocks of older housing units were in the Northeast and Midwest.

Location. The distributions of the units in the housing stock in cities, suburbs, and nonmetropolitan areas by property type are provided in Table A.1. The majority of one-family owner-occupied and 1-unit rental structures were located in suburbs, while units in 2- to 4-unit rental structures were largely in central cities. For one-family owner-occupied structures, 52 percent were located in the suburbs, 21 percent were located in the central cities, and 26 percent were located in nonmetropolitan areas. For 1-unit rental structures, 44 percent were in suburbs, 29 percent in central cities, and 27 percent in nonmetropolitan areas. For 2- to 4-unit rental structures, 46 percent of the structures were found in central cities, 39 percent in suburbs, 15 percent in nonmetropolitan areas.

Region. Most 1-unit rental structures were in the South and units in 2- to 4-unit rental structures were in the Northeast. The regional break down of the housing stock by size of structure is provided in Table A.1. One-family owner-occupied structures were distributed as follows: 37 percent in the South, 26 percent in the Midwest, 19 percent in the West, and 18 percent in the North. One-unit rental structures were located largely in the South (43 percent) and West (25 percent). For 2- to 4-unit rental structures, the largest percent were in the Northeast (34 percent) and the smallest percent were in the South (22 percent).

Age. Units in single-family rental structures were generally older than one-family owner-occupied structures. Sixty-two percent of one-family owner-occupied structures were built after 1960, compared with 49 percent of 1-unit rental structures and 41 percent of the units in 2- to 4-unit rental structures. Forty percent of the units in 2- to 4-unit rental structures were built before 1940, compared with 25 percent and 17 percent for 1-unit rental and one-family owner-occupied structures, respectively.

The structural age of housing units by location is provided in Table A.2. Not surprisingly, housing units in the central cities were older than housing units in the suburbs and nonmetropolitan areas. Most units in the suburbs and nonmetropolitan areas were built between 1960 and 1980. In the central cities, the majority of units were built before 1960.

Single-family structures by tenure and region are provided in Table A.3. Units in the Northeast and Midwest are generally older than housing units in the South and West. The majority of units in the South and West were built after 1960 and the largest proportion of these units were built between 1960 and 1980. With the exception of one-family owner-occupied structures in the Midwest which were built between 1960 and 1980, the largest proportion of units in single-family structures were built before 1940 in the Northeast and Midwest. For units in 2- to 4-unit rental structures, 50 percent in the Midwest and 62 percent in the Northeast were built before 1940.

Appendix II

Definitions and Missing Data Issues

Definitions. A standard set of definitions is used to describe borrowers and census tracts:

Property types:

Investor 1-unit	Investor-owned property with one unit where owner does not reside on property
Investor 2- to 4-unit	Investor-owned property with two to four units where owner does not reside on property
Owner-occupied 2- to 4-unit	Owner resides in investment property and property has two to four units

Neighborhood characteristics:

Very-low-income	Below 60 percent of area median income (AMI)
Low-income	Between 60 and 80 percent of AMI
Moderate-income	Between 80 and 100 percent of AMI
High-income	Between 100 and 120 percent of AMI
Very-high-income	Over 120 percent of AMI

High-minority	30 percent or more minority population

Missing Data Issues. As required by HUD's Notices of Interim Goals (Federal Register, vol. 58, pp. 53049-53096, October 13, 1993), the GSEs only began collecting borrower and loan characteristics for their mortgage purchases in 1993. For this reason, data on loans originated prior to 1993 and purchased after December 31, 1992, may be missing. The Final Rule contains a provision for the GSEs which exempts mortgages originated prior to January 1, 1993 and purchased on or after that date from being counted toward achievement of any of the housing goals if data necessary to determine goal performance is missing. For this reason, loans originated prior to 1993 and purchased after December 31, 1992, may be missing some information on borrower and loan characteristics.[10]

[10] As stated in HUD's Final Rule on Regulation of Fannie Mae and Freddie Mac, Federal Register, vol. 60, pp. 61891 (December 1, 1995), when a GSE lacks sufficient information to determine whether the purchase of a mortgage originated after 1992 counts toward achievement of a particular housing goal, that mortgage purchase shall be included in the denominator for that housing goal assuming that it qualifies toward the goal otherwise.

Below is a list of missing data for the variables, borrower and coborrower race/ethnicity and rent affordability, as reported in the National File B of the PUDB for the GSEs' mortgage purchases. Data in the National File B is reported in terms of units. For borrower and coborrower race, the following data is missing:

- 16 percent of investor 1-unit properties for Fannie Mae
- 12 percent of investor 1-unit properties for Freddie Mac
- 10 percent of units in investor 2- to 4-unit properties for Fannie Mae
- 9 percent of units in investor 2- to 4-unit properties for Freddie Mac
- 10 percent of units in owner-occupied 2- to 4-unit properties for Fannie Mae
- 12 percent of units in owner-occupied 2- to 4-unit properties for Freddie Mac

For rent affordability, the following data is missing:

- 26 percent of investor 1-unit properties for Fannie Mae
- 9 percent investor 1-unit properties for Freddie Mac
- 14 percent units in investor 2- to 4-unit properties for Fannie Mae
- 3 percent units in investor 2- to 4-unit properties for Freddie Mac
- 10 percent units in owner-occupied 2- to 4-unit properties for Fannie Mae
- 6 percent units in owner-occupied 2- to 4-unit properties for Freddie Mac

The analysis in section III.C uses borrower income and the analysis in section III.D uses rent affordability. Missing data is assumed to be distributed randomly and consequently should have no impact on the conclusions state in this paper.

Appendix III

The GSEs' New Initiatives in Single-Family Rental Housing

In addition to the GSEs' purchase of single-family rental properties through their standard purchase programs, they have undertaken a number of initiatives that directly or indirectly relate to the financing of single-family rental properties. Freddie Mac, in conjunction with the Neighborhood Reinvestment Corporation (NRC), offers a 'full cycle" lending approach which requires comprehensive homeownership education. The program is provided by NRC's NeighborWorks affiliates in targeted cities and consists of pre- and post-purchase counseling, landlord training (when applicable), and enhanced mortgage-default prevention to help borrowers avoid delinquency and foreclosure. Under the FHA 203 (k) Rehabilitation Mortgage Purchase Pilot, Freddie Mac purchases fixed- rate FHA 203(k) mortgages that finance both the purchase and rehabilitation of a home. Since many single-family rental properties are in the oldest housing stock, this program gives borrowers the money they need to improve properties while providing lenders with an investment-quality product. Through the Affordable Gold program, Freddie Mac purchases, on a negotiated basis, 2- to 4-unit properties with higher LTV ratios and employs an alternative method of underwriting rental income.[11]

In 1995, Fannie Mae produced a self-study workbook entitled "Becoming a Landlord" to prepare future borrowers of single-family rental property for the additional responsibilities of being a landlord. In 1996, Fannie Mae began a pilot project to purchase mixed-use properties. The project allows two- to three-residential units above a store front or similar commercial space. In many cities, mixed properties are an important segment of the housing stock and families who own and operate small businesses live in residential units located above their businesses.[12] The Fannie Mae project will examine the default risk of these properties.

[11] Freddie Mac 1995 and 1996 Annual Housing Activities Reports.

[12] Fannie Mae 1995 and 1996 Annual Housing Activities Reports.

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