Performance of the GSEs at the Metropolitan Level

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Abstract

This article examines differences in the number and percent of government-sponsored enterprise (GSE) purchases of single-family loans made to minorities and low- and moderate-income borrowers in metropolitan statistical areas (MSAs) across the country. The objective of the research was to determine whether differences in the extent of institutional relationships among the GSEs, lending institutions, Government agencies, and nonprofit community-based organizations explain differences across MSAs in the GSEs' purchases of loans made to traditionally underserved populations.

The article begins with a review of the national context for considering GSE performance at the metropolitan level. The authors show that, across all MSAs, the percentage of GSE loan purchases that qualify for the affordable housing goals is greatest in markets where lenders themselves make more loans to underserved populations and where median incomes are relatively high.

The article includes four metropolitan-area case studies that examine the contribution of institutional relationships to GSE purchases of loans made to minority and low- and moderate-income populations in Washington, D.C.; Houston, Texas; Columbus, Ohio; and Pittsburgh, Pennsylvania. The authors find that the GSEs purchase higher percentages of loans made to underserved populations in case study areas where linkages are the strongest between the GSEs and the local affordable housing system. They conclude that institutional relationships can bolster the GSEs' efforts to serve minority and low- and moderate-income populations.

The article concludes with recommendations regarding local planning processes, the national GSE affordable housing goals, and the GSE data reporting system.

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 acknowledged the special role that the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), the two major housing-related Government-sponsored enterprises (GSEs), must play in extending the availability of mortgage credit. Through this legislation, Congress directed the U.S. Department of

Housing and Urban Development (HUD) to devise quantifiable, national goals that would hold the GSEs accountable for financing housing traditionally underserved by the mortgage market.

The resulting GSE affordable housing goals target housing for low- and moderate-income families, as well as loans made in underserved areas, and mortgages to benefit families with very low incomes. The goals are expressed as national percent-of-business or dollar-volume targets, which the GSEs are required to make a good-faith effort to meet annually, under threat of sanction by the HUD Secretary. Since introduction of the housing goals in 1993, HUD has implemented several changes to increase the share of the GSEs' business that must finance housing for targeted families and neighborhoods. HUD has announced plans for the affordable housing goals for the year 2000 and beyond that would require additional increases in the GSEs' support for targeted housing.[1]

Study Objectives

To inform HUD's reevaluation of the housing goals, this study investigated the GSEs' activities at the metropolitan level. The rationale for the study was essentially twofold.

First, the study aimed to address the *information vacuum* that currently exists regarding the GSEs' activity at the subnational level. Although the affordable housing goals provide a consistent, annual gauge of the GSEs' aggregate activity, little is known about how the GSEs perform locally. This is a significant gap in HUD's understanding of the GSEs because, despite recent consolidation in the mortgage industry, the vast majority of lending decisions are still made in the context of local economic conditions and demographic characteristics. Accordingly, the opportunity for the GSEs to finance housing for traditional underserved borrowers and communities depends on local lending activity, and the opportunity for lenders in a particular metropolitan area to extend credit to targeted borrowers and communities depends on GSE activity. The study therefore examined how Fannie Mae and Freddie Mac perform when the national affordable housing goal measures are applied at a metropolitan level.

Second, the study examined how Fannie Mae's and Freddie Mac's relationships with mortgage and housing industry institutions influence their respective performance at the metropolitan level. The GSEs have, of course, always interacted with lenders and other public- and private-sector institutions that operate in local housing markets. However, these relationships have taken on additional import in the context of the housing goals. As demonstrated by the GSEs' annual housing activities reports to HUD, Fannie Mae and Freddie Mac have relied in part on localized strategies to help achieve their regulatory obligations. There can be little doubt that these efforts—such as experiments with new mortgage products, financial and capacity-building support for affordable housing developers, and, in some instances, the opening of satellite offices—have increased the profile of the GSEs at the local level. However, little is known about the significance of these initiatives in terms of the GSEs' affordable housing goal performance. This study aimed to fill this gap.

The GSEs' Relationships With Housing and Mortgage Industry Institutions

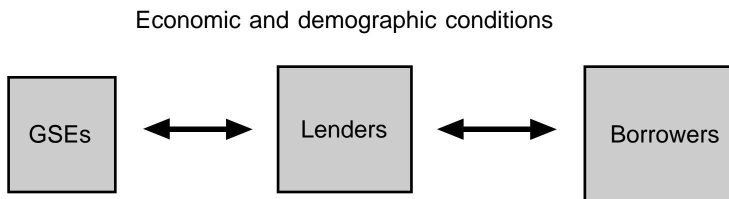
To facilitate the investigation of these issues, the study adopted a conceptual framework regarding the GSEs' relationships with metropolitan-area housing and mortgage industry institutions. This framework differentiates between the relationships that the GSEs have built as part of two systems related to the delivery of housing credit. Though distinct, the two systems interact at the local level.

The first system—referred to here as the GSEs' business system—is composed of the relationships between the GSEs and lenders (and, through them, borrowers) and captures the GSEs' traditional function in providing a secondary mortgage market (see exhibit 1). Fannie Mae and Freddie Mac sign contracts with lenders that, in simple terms, commit lenders to deliver specified volumes of different mortgage products at negotiated prices. For example, forward commitments (or special negotiated commitments on loans already closed) stipulate the type, dollar volume, underwriting guidelines, and pricing formulas for lenders' deliveries to the GSEs, with penalties for failing to do so by the contract date. Lenders can also enter into standby (usually flow) commitments that lock in certain loan parameters, including underwriting deviations, but do not require delivery to the GSEs. Regardless of the nature of the commitment, a sale, once agreed to, becomes mandatory, with associated penalties for nondelivery.

Such contractual relationships figure prominently in the GSEs' ability to penetrate specific metropolitan housing markets—in order to purchase loans in a particular area, Fannie Mae or Freddie Mac must have a business relationship with lenders that are active in that area. However, with consolidation of the banking and mortgage industries, these contracts often function at a national or regional (that is, multistate) level, giving lenders full discretion over the geographic origin and other characteristics of loans that are actually sold to the GSEs. Therefore, although the GSEs' business relationships with lenders are a necessary precondition for their purchase of loans in a given metropolitan area, they are not sufficient to guarantee that many loans originating from that area will meet the requirements of the national affordable housing goals.

Exhibit 1

GSEs' Core Business System



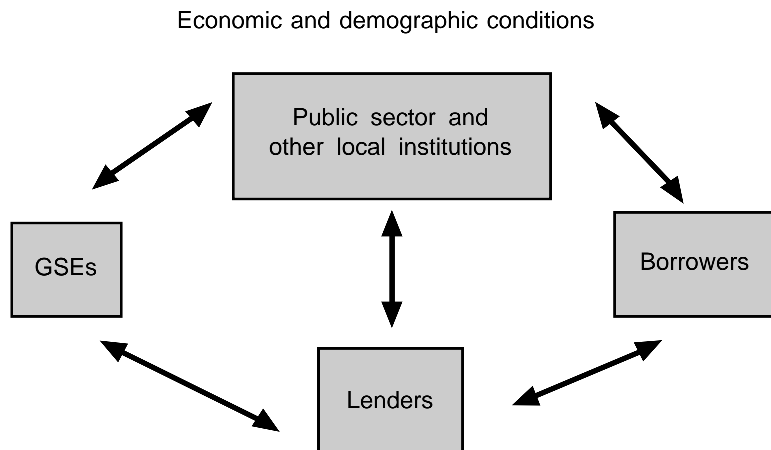
Under the terms of their contracts with lenders, the GSEs provide capital for additional mortgage credit or liquidity for the mortgage market. Therefore, the business system, as conceived here, represents the GSEs' primary business function. Over recent years, though, the GSEs have played an increasingly active role in a second set of relationships —referred to here as the local affordable housing system. In a particular locality, this system is composed of the relationships between different public- and private-sector entities that are committed to addressing local affordable housing needs (see exhibit 2). This set of relationships will exist to some degree in every metropolitan area; however, the participation of different types of institutions, the nature of the relationships, and the cohesiveness of the system as a whole will vary considerably from place to place.

State and local governments, for example, may use HUD funding through the Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) programs to subsidize affordable housing efforts. Lenders may participate in the affordable

housing system by offering first mortgages that are often accompanied by subsidized second mortgages. Other contributors to local affordable housing efforts may include nonprofit and for-profit developers, housing counseling agencies, local housing partnerships, and the local or regional offices of national housing intermediaries.

Exhibit 2

Local Affordable Housing System



For their part, the GSEs have become active participants in local affordable housing systems through various initiatives. A high-profile example is the wide range of support for local affordable housing efforts provided by Fannie Mae's local partnership offices. Freddie Mac also has participated in community-based initiatives such as the provision of technical and financial support for the nonprofit housing industry. Furthermore, both GSEs have undertaken initiatives to tailor their underwriting criteria in particular locales so they can purchase publicly and privately subsidized mortgages.

Through their combined efforts, this diverse set of institutions can influence the flow of capital, technical assistance, and political support for the provision of affordable housing in a particular metropolitan area. However, the strength of a local affordable housing system—and the GSEs' participation in that system—will not necessarily improve the GSEs' performance pursuant to the affordable housing goals. Even if a local affordable housing system generates a large volume of loans for underserved populations and communities, this will only improve Fannie Mae's and Freddie Mac's performances if the GSEs and area lenders have business relationships that will deliver the loans to the secondary market.

In short, the study's underlying premise was that the GSEs will perform best in financing units targeted by the affordable housing goals in metropolitan areas in which there is a convergence of the GSEs' business system and the local affordable housing system. Neither element is sufficient alone to guarantee the performance of the GSEs at the metropolitan level. However, in metropolitan areas in which the GSEs have strong business relationships with local lenders and there is a strong local affordable housing system, it will be easier for the GSEs to target housing that meets the GSE affordable housing goals.

This is especially likely, we hypothesize, in metropolitan areas in which the GSEs have collaborated with other housing and mortgage institutions to develop mortgage products tailored to local housing needs.

An additional element of the study's conceptual framework is the impact of national and local economic conditions and demographic characteristics. As demonstrated by exhibits 1 and 2, national and local economic conditions and demographic characteristics are included here as external influences. Metropolitan housing prices, income levels, employment and population growth, and the national or regional interest rate environment are variables that clearly influence the ability of the local affordable housing system to finance units that meet the GSEs' affordable housing goals. In other words, economic and demographic conditions can either inhibit or facilitate the joint efforts of the business and affordable housing systems.

Study Methodology

In investigating the activity of the GSEs at the metropolitan level, this research employed a variety of data sources and methods.

We used existing information on the GSEs' mortgage purchases to provide a national context for the study and to examine how Fannie Mae and Freddie Mac perform when GSE performance measures are applied at the metropolitan level. Two sources were employed: data compiled by HUD in the Public Use Database (PUDB) and data compiled by the Federal Financial Institutions Examination Council under the auspices of the Home Mortgage Disclosure Act (HMDA). We relied on data for 1995 and 1996, the most recent years for which data were available when analysis began.

The study also included field visits to four metropolitan areas—Washington, D.C.; Houston, Texas; Columbus, Ohio; and Pittsburgh, Pennsylvania—selected to represent the diversity in the GSEs' performance at the metropolitan level. Site visits involved interviews with local representatives of the GSEs and others active in the local affordable housing system to explain observed differences in the GSEs' metropolitan performance in light of the institutional and programmatic strategies the GSEs pursue and the relationships the GSEs have with other mortgage industry institutions at a local level. For the case study communities, we also used HMDA data to compare GSE performance to benchmarks that take into account differences in metropolitan-area demographics and lending activity.

The study focused on the GSEs' acquisition of loans that finance owner-occupied units (including home purchase, refinance, and home improvement loans). Except to provide a national framework for the study as a whole, this article does not examine GSE activities that finance housing for renters in single-family or multifamily properties. This exclusion was determined partly by the availability of data to assess GSE performance at the metropolitan level for owner-occupied units (or, rather, the lack of publicly available data to do the same for renter-occupied units). However, there also is a compelling policy rationale for confining the analysis to owner-occupied housing: the expansion of homeownership opportunities remains a top national priority, as initiatives such as the National Homeownership Strategy clearly demonstrate. The national commitment to homeownership also has been evident in HUD's oversight of the GSEs. In fact, in establishing the current housing goals, HUD underscored the GSEs' responsibility for increasing the availability of mortgage credit to homebuyers, especially among minority and lower income populations that traditionally have been underserved.

This article provides a case study assessment of the GSEs' performance in purchasing loans on owner-occupied housing at the metropolitan level. Because of resource constraints, the study does not attempt to definitively account for performance variations of the GSEs at the metropolitan level. However, it does offer important insight into the relationship among GSE performance, institutional structure, and programmatic strategies on a metropolitan level and thereby informs HUD's deliberations regarding the GSE affordable housing goals.

Organization of the Article

The main body of this article is divided into eight sections. To provide a context for the remainder of the article, section 2 examines the contribution that owner-occupied housing makes to the GSEs' performance at the national level. This section also analyzes the GSEs' performance at the metropolitan level, focusing on differences between Fannie Mae and Freddie Mac and the relationship that appears to exist between the GSEs' activity and local demographic and lending characteristics.

Section 3 presents an overview of the metropolitan area case studies. It recaps the study's conceptual framework, reviews the criteria used to select areas for study, and describes crosscutting methodological issues that apply to all the case studies. The next four sections present the findings from an examination of the GSEs' performance in four metropolitan areas—Washington, D.C.; Houston, Texas; Columbus, Ohio; and Pittsburgh, Pennsylvania. Each section uses HMDA and other data to compare the GSEs' performance to local benchmarks; however, the discussion relies predominantly on insights gleaned from interviews with affordable housing-sector representatives in each area.

Finally, section 8 summarizes the study's findings and provides recommendations regarding specific actions HUD might want to consider in the ongoing reevaluation of the GSE affordable housing goals. It specifically examines the potential utility of metropolitan housing goals (or subgoals), although effecting this would require action by Congress. It also considers measures HUD could implement within its existing mandate.

GSE Housing Goal Performance

This section quantifies the performance of Fannie Mae and Freddie Mac in delivering credit to traditionally underserved populations and communities, thereby providing a context for the subsequent case study assessment of the linkages between the GSEs' performance and institutional relationships at a metropolitan level. The discussion is divided into two parts. First, it examines GSE performance nationwide, illustrating the contribution made by metropolitan owner-occupied housing to the GSEs' overall attainment of the housing goals. Second, it focuses on the GSEs' purchase of loans on single-family owner-occupied housing in metropolitan areas.

National Affordable Housing Goal Performance

Through the national affordable housing goals, HUD holds the GSEs accountable for financing traditionally underserved housing populations. On an annual basis, the GSEs are required to achieve each of the housing goals, expressed as a percent of units financed or as a dollar value of investments in targeted housing. Specifically, the goals target:

- Low- and moderate-income housing—housing for families at or below area median income.

- Underserved areas—housing in low-income neighborhoods or in middle-income neighborhoods with concentrations of minorities.
- Special affordable housing—housing for very low-income families or for low-income families in low-income areas.

Exhibit 3 presents the affordable housing goals and the GSEs' performance according to these goals for 1996, the most recent year for which data were available when the study began.[2] As indicated, both GSEs achieved all of the percent-of-business goals in 1996. Exhibit 3 also reveals the differential performance of the two GSEs; as in previous years, Fannie Mae outperformed Freddie Mac on each of the goals specified by HUD in 1996.

Although the affordable housing goals provide a framework for GSE accountability, they do not dictate the GSEs' business strategies. Rather, HUD allows the GSEs to decide what type of units to finance and where to purchase loans to meet the housing goals. As a point of reference, however, the following discussion examines the contribution that metropolitan owner-occupied housing—the focus of this article—makes to the GSEs' goal attainment. In other words, how important are single-family owner-occupied units located in metropolitan areas to the GSEs' efforts to meet the targets set by HUD?

Exhibit 3

GSEs' Affordable Housing Goal Performance, 1996

	Goal (%)		
	Low- and Moderate-Income[a] Housing	Underserved Areas[b]	Special Affordable Housing[c]
Goal	40.0	21.0	12.0
Fannie Mae	45.6	28.1	15.4
Freddie Mac	41.1	25.0	14.0

[a] Units occupied by households with income less than or equal to area median income.
[b] Units located in metropolitan census tracts with (a) median family income less than or equal to 90 percent of area median income or (b) median family income less than or equal to 120 percent of area median income and a population that is at least 30 percent minority. Units located in nonmetropolitan counties with (a) median family income less than or equal to 95 percent of the greater of State or national nonmetropolitan median income or (b) median family income less than or equal to 120 percent of State nonmetropolitan median income and a population that is at least 30 percent minority.
[c] Units occupied by households with income less than or equal to 60 percent of area median income or households with income less than or equal to 80 percent of area median income located in low-income areas (census tracts with median income less than or equal to 80 percent of area median income).

Source: U.S. Department of Housing and Urban Development, based on analysis of the GSEs' loan-level data.

Single-family owner-occupied units constitute the bulk of the housing financed by the GSEs' mortgage purchases at a national level. However, the extent to which the GSEs' business is focused on single-family owner-occupied housing belies the importance of single-family and multifamily rental units to the GSEs' accomplishment of the affordable housing goals.

The contribution that owner-occupied housing makes to the GSEs' goal performance is shown in exhibit 4, which reproduces figures that have appeared in previous HUD reports. As indicated, single-family owner-occupied units represent an overwhelming majority of the units financed by the GSEs—in 1996, 82 percent of the total units financed by Fannie Mae and Freddie Mac, or 2,748,185 units. However, owner-occupied units do not constitute an equivalent share of the units that qualify for each of the housing goals. Single-family owner-occupied units account for less than three-quarters (72 percent) of the GSEs' units located in underserved areas, less than two-thirds (65 percent) of the units that qualify for the low- and moderate-income housing goal, and just one-half (50 percent) of the units that meet the criteria for the special affordable housing goal. By contrast, rental housing represented just 18 percent of the GSEs' combined business in 1996, but a greater share of the units qualifying for each of the housing goals.

Exhibit 4

Contribution of Different Unit Types to the GSEs' Overall Business and Housing Goal Attainment, 1996

	Share of GSEs' Overall Business		Percentage Share of GSE-Financed Units That Qualify for Housing Goals		
Unit Type	**Units**	**Percent**	**Low- and Moderate-Income Housing Goal**	**Underserved Areas Goal**	**Special Affordable Housing Goal**
Single-family owner occupied[a]	2,748,185	82	65	72	50
Single-family/ multifamily rental	587,072	18	35	28	50
Total	3,335,257	100	100	100	100

[a] This category does not include owner-occupied units in two- to four-unit properties.

Sources: Compiled from Manchester, Paul B., *Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac: 1996–97 Update,* Working Paper No. HF–006 (August 1998), U.S. Department of Housing and Urban Development; and DiVenti, Theresa R., *The GSEs' Purchases of Single-Family Rental Property Mortgages,* Working Paper No. HF–004 (March 1998), U.S. Department of Housing and Urban Development.

In addition to its focus on single-family owner-occupied housing, this study profiles the GSEs' activities in metropolitan areas. To reiterate, HUD does not dictate where the GSEs must purchase loans to meet the housing goals. Not surprisingly, however, exhibit 5 reveals that a clear majority of the single-family units financed by the GSEs are located in metropolitan areas—85.7 percent in 1996. Exhibit 5 also indicates the extent to which owner-occupied housing located in metropolitan and nonmetropolitan areas qualify for each of the housing goals. As shown, loans on owner-occupied housing in metropolitan areas are more likely to meet the low- and moderate-income and special affordable housing goals than loans on similar housing in nonmetropolitan areas. Approximately 35.8 and 10.3 percent of owner-occupied units located in metropolitan areas qualify for these goals, respectively, compared to 27.6 and 6.4 percent of similar nonmetropolitan units. However, for the underserved areas goal this pattern is reversed: the share of GSE-financed units that qualify for this goal in nonmetropolitan areas (36.5 percent) is greater than the share in metropolitan areas (22.6 percent).

Exhibit 5 also underlines another aspect of the GSEs' single-family business that is important for interpreting the study results—the extent to which the GSEs reach the national housing goal targets for the purchase of loans on metropolitan-area single-family owner-occupied units. For all property types combined, Fannie Mae and Freddie Mac exceeded each of the 1996 housing goal targets (as shown in exhibit 3). However, neither GSE achieved the national targets for low- and moderate-income or special affordable housing with the single-family owner-occupied portion of its business. Therefore, although this study focuses on the most important component of the GSEs' business in terms of volume of units financed, the metropolitan area performance levels discussed below do not necessarily equal the performance levels that the GSEs are required to, and do, achieve for all units combined.

Exhibit 5

Share of GSE-Financed, Single-Family, Owner-Occupied Units That Qualify for the Housing Goals by Metropolitan Area Status, 1996[a]

		Goal		
Area	**Share of Units**	**Low- and Moderate-Income Housing**	**Underserved Areas**	**Special Affordable Housing**
Metropolitan[b]	85.7%	35.8%	22.6%	10.3%
Nonmetropolitan	14.3	27.6	36.5	6.4
All	100.0	34.7	24.6	9.7

[a] Because these figures are derived from loan-level data, they include investor-owned, renter-occupied units.

[b] In this and subsequent tables, metropolitan areas consist of metropolitan statistical areas and primary metropolitan statistical areas designated by the Office of Management and Budget.

Source: Compiled from the GSE Public Use Database, Single-Family Properties Census Tract File, 1996.

Metropolitan-Area Performance

The remainder of this section presents results from an assessment of Fannie Mae and Freddie Mac performances in each of the Nation's metropolitan areas, reproducing on a metropolitan level the same measures used by HUD to assess GSE performance nationally. It is intended to answer a number of questions. Clearly, GSE performance will vary across metropolitan areas, but do the disparities between Fannie Mae and Freddie Mac performances at a metropolitan level parallel differences nationwide? How does the performance of the GSEs compare to the performance of primary lenders that operate in metropolitan-area affordable housing systems? The analysis here is predominantly descriptive and is not designed to explain performance variations between the GSEs or across metropolitan areas. Nevertheless, it does describe some of the relationships that appear to exist between GSE performance and primary market and demographic characteristics at a metropolitan level.

This section focuses entirely on loans for single-family owner-occupied units in metropolitan areas. Furthermore, to facilitate comparisons with the primary lending market, the analysis is limited to conventional, conforming loans, which comprise the overwhelming majority of Fannie Mae and Freddie Mac purchases. The analysis uses HMDA Loan/Application Register data instead of the PUDB. This choice permits direct comparison of

the GSEs with primary market lenders, but also was dictated by the level of detail publicly accessible in the two data sources: it is not possible to distinguish between mortgages on owner-occupied versus rental properties using the PUDB single-family census tract file. Although there are a number of concerns regarding the quality and coverage of the HMDA data, previous HUD research has demonstrated the comparability of the HMDA data and HUD's proprietary version of the GSE database.[3]

Exhibit 6 demonstrates the variations that exist in the GSEs' performance at the metropolitan level. The exhibit shows the extent to which GSE-financed owner-occupied units qualify for each of the affordable housing goals in metropolitan areas, as expressed by two statistics: the share of all metropolitan area units, combined, that qualify for the goals and the average share of units that qualify for the goals, calculated across all metropolitan areas on an unweighted basis—that is, each metropolitan statistical area (MSA) or primary metropolitan statistical area (PMSA) is given equal weight regardless of loan volume.[4] For both GSEs, the average percent of loan purchases that meet each of the housing goals is less than the weighted share for all metropolitan loans combined. Therefore, in metropolitan areas where they purchase a greater volume of loans, the GSEs achieve a higher performance level in terms of the share of loans that qualify for the housing goals. This finding underscores the importance of the GSEs' business system—that is, their contractual relationship with lenders—in determining performance at the metropolitan level.

Exhibit 6 also illustrates the relative performance of the GSEs compared with primary market lenders and with each other. The exhibit shows that the percent of primary market loans that qualify for the housing goals consistently outpaced the performance of both GSEs. The exhibit also demonstrates that Fannie Mae consistently, though marginally, outperformed Freddie Mac in the purchase of targeted single-family owner-occupied loans in 1996. For example, 38.0 percent of the single-family owner-occupied units that Fannie Mae assisted in metropolitan areas met the low- and moderate-income housing goal, compared to 36.6 percent of the units assisted by Freddie Mac. However, it should be noted that the ratio of Fannie Mae to Freddie Mac performance for the type of units shown here—single-family owner-occupied units financed by conventional, conforming loans and located in metropolitan areas—is not as great as that exhibited for all units combined on a national level (see exhibit 3).

Exhibit 7 further reveals the nature of the GSEs' relative performance at the metropolitan level. The exhibit shows that although, on average, Fannie Mae outperformed Freddie Mac when the national housing goal measures are applied at the metropolitan level, there is a significant portion of metropolitan areas where the reverse is true. For each housing goal, metropolitan areas were divided into three groups: metropolitan areas in which the share of Fannie Mae's purchases meeting the goal exceeded the corresponding measure for Freddie Mac by 10 percent (not percentage points), areas in which Freddie Mac outperformed Fannie Mae according to the same criterion by 10 percent, and areas in which the GSEs were within 10 percent of each other. As exhibit 7 shows, Fannie Mae outperformed Freddie Mac according to this standard in at least one-third (32 percent) of all metropolitan areas for each of the housing goals. However, Freddie Mac also outperformed Fannie Mae in between 12 percent (low- and moderate-income housing goal) and 18 percent (special affordable housing goal) of all metropolitan areas.

Exhibit 6

Share of GSE- and Primary Lender-Financed Units That Qualify for the Housing Goals in Metropolitan Areas, 1996[a]

	Goal								
	Low- and Moderate-Income Housing			Underserved Areas			Special Affordable Housing		
	Fannie Mae	Freddie Mac	Primary Lenders[b]	Fannie Mae	Freddie Mac	Primary Lenders	Fannie Mae	Freddie Mac	Primary Lenders
All Metropolitan area loans combined	38.0%	36.6%	43.0%	22.0%	19.8%	27.3%	11.0%	10.3%	16.3%
Metropolitan area average[c]	33.8	32.2	41.4	20.3	19.0	26.6	9.5	8.6	15.7

[a] Single-family owner-occupied units financed by conventional, conforming loans originated and/or purchased by an HMDA respondent in 1996.
[b] Primary lenders consist of all HMDA respondents, including both depository and nondepository institutions. The performance data for primary lenders indicate the share of units financed (originated and/or purchased) by HMDA respondents that qualify for each of the GSE housing goals. For example, in the average metropolitan area, 41.4 percent of units financed by primary lenders in 1996 met the requirements of the low- and moderate-income housing goal.
[c] The unweighted average share of units qualifying for each of the GSE housing goals across metropolitan areas.

Source: Compiled from HMDA Loan/Application Register data, 1996.

Exhibit 7

GSEs' Relative Housing Goal Performance in Metropolitan Areas, 1996[a]

	Goal		
Share of Metropolitan Areas in Which[b]	Low- and Moderate-Income Housing	Underserved Areas	Special Affordable Housing
Fannie Mae > Freddie Mac	32%	42%	49%
Fannie Mae = Freddie Mac	56	41	33
Freddie Mac > Fannie Mae	12	17	18
Total	100	100	100

[a] Single-family owner-occupied units financed by conventional, conforming loans originated and/or purchased by an HMDA respondent in 1996.
[b] For each housing goal, metropolitan areas were divided into three categories based on the GSEs' relative performance. "Fannie Mae = Freddie Mac" means that there is a less than 10-percent difference in the share of Fannie Mae and Freddie Mac loans that meet a particular goal—56 percent of metropolitan areas fell into this category for the low- and moderate-income housing goal. The other two categories include metropolitan areas in which one of the GSEs outperformed the other by 10 percent or more.

Source: Compiled from HMDA Loan/Application Register data, 1996.

To investigate the relationship between the GSEs' performances at the metropolitan level and local lending and demographic characteristics, metropolitan areas were divided into four equal groups (or quartiles) based on a number of measures. For each group of metropolitan areas, the percent of the GSEs' business meeting the housing goals was calculated. Exhibit 8 presents the results of this analysis.

The first metropolitan-area characteristic shown is the total volume of conforming, conventional loans originated (or purchased) by the primary market lenders in 1996. Accordingly, the first quartile represents metropolitan areas in which the volume of primary market lending was lowest and the fourth quartile represents metropolitan areas in which the greatest number of loans were originated. As exhibit 8 indicates, for the low- and moderate-income and special affordable housing goals, there is a clear relationship between the GSEs' performance and activity in the primary market. Proportionately, both GSEs purchased a greater share of loans targeted according to these two housing goals in metropolitan areas in which the volume of originations was greatest. For example, an average of 26.1 percent of loans purchased by Fannie Mae in metropolitan areas in which the loan volume was lowest met the low- and moderate-income housing goal, whereas 36.9 percent of Fannie Mae's loans met this goal in areas with the greatest primary market loan volume. In markets in which there was a greater demand for mortgages, lenders (and through them, the GSEs) were more likely to serve households targeted by the affordable housing goals.

The linkage between the GSEs' activity and the local primary lending market is, if anything, more clearly demonstrated by the metropolitan-area characteristics presented in the next three panels of exhibit 8—the share of primary-lender loans that qualified for each of the housing goals. Not surprisingly, both GSEs purchased the greatest share of loans that met all three of the housing goals in metropolitan areas in which the greatest share of primary market loans qualified for the housing goals (fourth quartile). They purchased the fewest loans proportionately in metropolitan areas in which the smallest share of primary market loans qualified (first quartile). As suggested by the study's conceptual framework, the performance of GSEs should, all other things being equal, improve along with the performance of the local affordable housing system.

Finally, exhibit 8 examines the relationship between Fannie Mae and Freddie Mac performance and median family income. Our conceptual model acknowledges that the performance of the GSEs at the metropolitan level will be determined, to a certain extent, by a metropolitan area's demographic, housing market, and economic characteristics. This premise is substantiated, at least for two housing goals.

As exhibit 8 indicates, the share of the GSEs' loans that qualified for the low- and moderate-income and special affordable housing goals increased with greater metropolitan-area income levels. For example, in metropolitan areas in which average income levels were lowest (first quartile), just 6.4 percent of the conventional, conforming loans financed by Fannie Mae qualified for the special affordable housing goal. By contrast, 12.2 percent of Fannie Mae's purchases qualified for the same goal in metropolitan areas with the greatest incomes (fourth quartile), or nearly twice the rate in areas with the lowest incomes. In metropolitan areas with higher incomes, it is easier for lower income families to qualify for conventional, conforming loans and therefore more likely, all other things being equal, that loans financed by Fannie Mae and Freddie Mac will qualify for the GSE goals that target affordable housing.

Exhibit 8

Share of GSE-Financed Units That Qualify for the Housing Goals by Metropolitan-Area Primary Market and Demographic Characteristics, 1996[a]

Metropolitan-Area Characteristic/ Grouping[b]	Goal: Low- and Moderate-Income Housing (%)		Underserved Areas (%)		Special Affordable Housing (%)	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Primary-lender originations and purchases[c]						
1st quartile	26.1	25.0	20.4	18.5	7.2	6.5
2nd quartile	33.7	31.9	20.7	19.4	9.3	8.1
3rd quartile	36.5	34.6	19.3	18.2	10.4	9.6
4th quartile	36.9	35.4	20.9	19.8	10.5	9.8
Loans that qualify for goals.[d]						
1st quartile	22.9	21.5	12.8	11.0	6.7	6.2
2nd quartile	30.0	29.4	16.5	15.0	8.3	7.5
3rd quartile	37.8	35.6	19.8	19.2	10.4	9.3
4th quartile	42.5	35.6	32.1	30.6	12.1	11.0
Median family income[e]						
1st quartile	23.8	22.8	21.0	20.0	6.4	5.5
2nd quartile	32.0	30.7	18.6	17.5	8.9	8.3
3rd quartile	37.5	35.2	18.8	17.4	10.6	9.5
4th quartile	41.8	39.9	22.7	21.3	12.2	11.2

[a] Single-family owner-occupied units financed by conventional, conforming loans originated and/or purchased by an HMDA respondent in 1996.
[b] For each characteristic, metropolitan areas are divided into four equal groups or quartiles. The first quartile includes metropolitan areas in which the characteristic is lowest in occurrence; the fourth quartile includes metropolitan areas in which the characteristic is highest in occurrence.
[c] The number of loans originated or purchased by HMDA respondents in 1996. For example, in metropolitan areas in which the volume of loan originations and purchases by primary lenders was lowest (i.e., the first quartile), an estimated 26.1 percent of the single-family owner-occupied units financed by Fannie Mae qualified for the low- and moderate-income housing goal.
[d] The share of loans originated or purchased by HMDA respondents that qualified for each of the GSE housing goals.
[e] Area median family income, 1996.

Source: Compiled from HMDA Loan/Application Register data, 1996.

Not surprisingly, the relationship between metropolitan-area income and the underserved areas goal is not as clear cut. The percent of loans financed by the GSEs that qualified for this goal was relatively high in metropolitan areas with the highest average income (fourth quartile), but it was also relatively high where incomes were lowest (first quartile). In addition to overall income levels, the extent to which GSE-financed loans in a particular metropolitan area qualify for the underserved areas goal is likely to depend on demographic characteristics that do not appear in exhibit 8. These might include spatial variation in family income, the portion of the area's population that consists of minorities, and the extent to which the minority population is concentrated geographically.

Conclusion

This section shows that although metropolitan-area owner-occupied housing—the focus of this article—is the most important component of the GSEs' business in terms of volume, it makes a smaller contribution to the GSEs' attainment of the affordable housing goals. Single-family owner-occupied units are an overwhelming majority of the units financed by the GSEs (82 percent in 1996), but a smaller share of those financed by Fannie Mae and Freddie Mac that qualify for each goal.

This section also shows that Fannie Mae does better than Freddie Mac, on average, when the affordable housing goals are applied to single-family loan purchases at the metropolitan level, just as it does nationwide for all units combined. However, this pattern is not universal. In a significant number of metropolitan areas (at least 1 in 10), Freddie Mac outperforms Fannie Mae by a margin of 10 percent or more.

Finally, this section indicates how the GSEs' purchase of qualifying loans compares to various primary market and demographic benchmarks. At the metropolitan level, lenders do better than both GSEs, on average, under all three housing goals. Having said that, the GSEs' activity clearly is influenced by what happens in a metropolitan area's primary market. The GSEs do better according to the housing goals in areas in which primary lenders also perform best. Furthermore, the GSEs purchase the greatest number of income-targeted loans (loans that qualify for the low- and moderate-income and special affordable housing goals) in metropolitan areas that have the greatest volume of primary market activity. The GSEs also are more likely to purchase income-targeted loans in areas with higher incomes. In other words, the performance of the GSEs improves along with the performance of the local affordable housing system but is sensitive to local economic conditions.

The following sections examine the interaction of these and other factors in four case-study communities.

Overview of the Metropolitan Case Studies

This section introduces the study's indepth examination of four metropolitan areas—Washington, D.C.; Houston, Texas; Columbus, Ohio; and Pittsburgh, Pennsylvania—selected to represent the diversity in the GSEs' performance according to the affordable housing goal measures at the metropolitan level. The case studies investigate the extent to which institutional relationships among the GSEs, lenders, public agencies, and nonprofit organizations influence the volume and proportion of GSE purchases of single-family home loans made to underserved populations.

The section begins with a recap of the study's conceptual framework. It then summarizes the criteria used to select the case-study communities, and provides an overview of the structure of the individual case studies and crosscutting methodological issues.

Sections 4 through 7 present the findings from each case-study community, in turn. A cross-site summary appears in section 8 along with policy implications.

Conceptual Framework for Investigating Institutional Relationships

As discussed in section 1, we hypothesize that the GSEs have established two major categories of institutional relationships over the years that interact at the metropolitan level. The first category—referred to here as the GSEs' business system—is composed of the contractual relationships between the GSEs and lenders. The GSEs and lenders sign contracts that commit the GSEs to purchase a specified number of single-family and multifamily loans at established prices. The second major category of institutional relationships is the local affordable housing system, which consists of public- and private-sector entities that are committed to increasing affordable housing opportunities for minority and low- and moderate-income populations and neighborhoods in a particular locality. Local and national economic conditions and demographic characteristics are included in both systems as external influences.

The case studies below investigate our hypothesis that the GSEs will purchase higher levels of home loans in metropolitan areas in which there is convergence of the business system and the affordable housing system. If the hypothesis approximates reality, the GSEs will purchase low levels of home loans made to traditionally underserved populations in metropolitan areas in which the relationships that make up the business system are not integrated with the local affordable housing system. For example, the GSEs and lenders may enter into contracts that specify overall purchase goals without targeting loans made to minorities and low- and moderate-income populations. Public agencies and nonprofit community organizations in a given locality may have little influence over the kinds of loans financed by the GSEs because the GSEs' contractual relationships with area lenders are developed without regard to the loans' geographic origins.

In contrast, we hypothesize that either GSE would purchase high levels of home loans made to minorities and low- and moderate-income borrowers in metropolitan areas in which their business system and the local affordable housing system overlap, or are no longer distinct systems. This might occur, for example, in metropolitan areas in which lenders, public agencies, and nonprofit organizations design affordable housing products and then negotiate with either or both GSEs over purchasing targets. Alternatively, the GSEs may participate directly in the design of home-loan products that are tailored to the affordable housing needs of a particular community.

Economic and demographic conditions can either inhibit or facilitate the joint efforts of the business and affordable housing systems. If housing prices are rising faster than the incomes of low- and moderate-income populations, for example, lenders may not be able to make high numbers of loans to low- and moderate-income borrowers and the GSEs would not be able to purchase considerable numbers of loans made to these borrowers. On the other hand, if income growth outstrips housing price hikes (especially in low- and moderate-income neighborhoods), affordable housing programs developed by the GSEs, lenders, local public agencies, and nonprofit organizations may thrive, ultimately resulting in high levels of GSE purchases of home loans made in the particular metropolitan area.

Selection of the Case-Study Metropolitan Areas

To investigate the hypotheses concerning the GSEs' institutional relationships, HMDA data were used to identify metropolitan areas in which the GSEs exhibited distinct levels of purchasing activity. We calculated the percent of the GSEs' single-family home loan purchases that met the criteria for each of the affordable housing goals—the low- and moderate-income housing goal, the underserved areas goal, and the special affordable housing goal. Based on a composite of these scores for each GSE in 1995 and 1996, metropolitan statistical areas (PMSAs/MSAs) were divided into four categories. One metropolitan area was selected for indepth study from each category:

- **Both GSEs Perform Well.** Metropolitan areas in which both GSEs performed well pursuant to the housing goals (compared to their performance in other metropolitan areas) and in which they both performed at about the same level. In other words, both Fannie Mae and Freddie Mac purchased a high percentage of mortgages that qualified for each of the three housing goals. These areas are expected to exhibit a merging of the business and affordable housing systems. In addition, economic and demographic conditions should be conducive to good performance in terms of meeting the housing goals. Washington, D.C., was selected as a case-study site because it fell into this category.
- **Fannie Mae Performs Relatively Well.** Metropolitan areas in which Fannie Mae did relatively well compared to its performance elsewhere, whereas Freddie Mac did not perform well. In other words, Fannie Mae purchased a relatively high percentage of loans that qualified under the three goals, whereas Freddie Mac did not. For Fannie Mae, the business and affordable housing systems should exhibit convergence. Houston, Texas, was selected because it was in this category.
- **Freddie Mac Performs Relatively Well.** Metropolitan areas in which Freddie Mac performed relatively well compared to its performance elsewhere, whereas Fannie Mae did not. This is the mirror opposite of the preceding category. Freddie Mac purchased a relatively high percentage of loans that qualified under the three goals, whereas Fannie Mae did not. For Freddie Mac, the business and affordable housing systems should merge. Columbus, Ohio, fell into this category.
- **Both GSEs Perform Poorly.** Metropolitan areas in which neither GSE performed well compared with its performance elsewhere and in which they both performed at about the same level. Neither GSE purchased a high level of loans that qualified under the three affordable housing goals. The business system and the affordable housing system are expected to be separate. Pittsburgh, Pennsylvania, was selected as a case study for this category.

Appendix B describes the selection criteria and process employed in more detail.

Case Study Organization and Crosscutting Methodological Issues

The case studies that follow are organized into four main sections. Following an introduction, each case study examines the GSEs' performances locally, compared to various primary market and demographic benchmarks. An overview follows of local economic and demographic characteristics that may have facilitated or inhibited the GSEs' efforts to finance housing for underserved populations and neighborhoods. Next, each case study details the influence of institutional factors on the GSEs' performances. This discussion is based predominantly on interviews with representatives from the local affordable housing system, including area lenders, developers, public-sector agencies, and representatives from the GSEs. Finally, there is a summary assessment of the extent to which institutional

relationships among the GSEs and local housing and mortgage industry institutions have influenced the local performance of the GSEs.

Before proceeding with the individual case studies, it is worth noting several cross-cutting methodological issues pertaining to the comparison of GSE performance to local benchmarks.

For each community, HMDA data were used to provide detailed portraits of GSE purchasing activity and the volume and percentage of single-family loans primary lenders made to minority and low- and moderate-income borrowers and neighborhoods. The analysis combines data for 1995 and 1996, the two most recent years for which data were available. As with the analysis of HMDA data in section 2, the discussion here is limited (unless otherwise noted) to conventional, conforming loans on owner-occupied single-family properties.

The case studies use income levels that are lower than the income targets in the existing GSE affordable housing goals. Specifically, the study uses the Community Reinvestment Act (CRA) definitions of low and moderate incomes. Whereas the GSE affordable housing goals use area median income to define low- and moderate-income households, this study adopts income levels of 50 percent or less of area median income to designate low-income borrowers and between 50 and 80 percent of area median income to identify moderate-income borrowers. Likewise, the case studies use lower income levels for geographical areas than the current affordable housing goals. In the analysis presented here, low-income census tracts are those in which the median income level is 50 percent or less of the median income level of the metropolitan area. Similarly, moderate-income tracts are those in which the median income level is between 50 and 80 percent of the median income level of the metropolitan area.

These definitions were adopted for two main reasons. For the past 22 years, banks and thrifts have had an affirmative obligation under CRA to meet the credit needs of low- and moderate-income borrowers and neighborhoods. We therefore anticipated that CRA may have motivated banks to establish institutional relationships with local public agencies, nonprofit community organizations, and the GSEs that help banks lend to low- and moderate-income populations. In addition, two HUD programs that provide a critical stimulus for local affordable housing system initiatives—the Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) programs—also employ the CRA low- and moderate-income limits. Local homeownership programs funded by CDBG and HOME primarily target populations and neighborhoods with incomes less than or equal to 80 percent of the area median.[5]

Finally, this research uses data on creditworthiness provided by Financial Modeling Concepts (FMC) as another benchmark for assessing local GSE performance. Specifically, the study uses FMC data on the geographic distribution of creditworthy and likely borrowers as a point of comparison for the distribution of the GSEs' loan purchases. Armed with the FICO (Fair Isaac and Company) scores for residents of low- and moderate-income census tracts, FMC uses a series of regression analyses to identify creditworthy residents likely to apply for home purchase, refinance, and home improvement loans.[6] For example, the analyses use household-level demographic variables (such as age, size, and composition) to identify the probability that creditworthy renter households will apply for a home purchase loan. Likewise, the regression analyses identify the probabilities of homeowners' demand for refinance and home improvement loans. Using FMC's data as a benchmark therefore helps the case studies account for the influence of demographic characteristics on the ability of the GSEs to purchase loans made to traditionally underserved populations.

Washington, D.C.

The Washington, D.C., MSA is an area in which both Fannie Mae and Freddie Mac purchased a high level of affordable mortgages relative to their performance in other areas. The D.C. case study neither refutes nor supports the study's institutional hypothesis. It appears that favorable economic and demographic conditions are largely responsible for high levels of GSE purchases of home loans made to minorities and low- and moderate-income populations and neighborhoods in Washington, D.C.

The GSEs' participation in the local affordable housing system has not been extensive but has been increasing over the years. Fannie Mae, for example, has established a partnership office in D.C. and Freddie Mac has committed to purchasing home loans of clients of a local counseling agency. However, GSE participation in such efforts has not yet contributed to a significant merging of the local affordable housing system and the GSEs' business system. National lenders interviewed for this study report that headquarters' offices located outside the metropolitan area are responsible for contract negotiations with the GSEs.

In the past, local banks also did not integrate their affordable products into their business relationships with the GSEs. One local bank interviewed for this study was a portfolio lender for many years. This may change, however, as that bank has established an affordable homeownership initiative with local churches and Fannie Mae. Another local bank entered into contracts with the GSEs to sell area loans, but an emphasis on purchasing loans made to minorities and low- and moderate-income borrowers did not seem apparent in contract negotiations.

Economic conditions are one of the major factors in determining the extent of the GSEs' goals-related activity in the Washington area. The Washington, D.C., MSA is a rapid-growth area with many high-income employment opportunities. Therefore, while the cost of housing is high, so are family incomes. According to Fannie Mae and Freddie Mac officials interviewed for this research, this makes it easier for low- and moderate-income households to participate in the mortgage market and increases the opportunity for the GSEs to purchase loans targeted by the affordable housing goals. The high volume of lending activity in the D.C. market also contributes to the GSEs' performance in the metropolitan area.

At the same time, the Washington, D.C., MSA is plagued by a growing inequality between the District of Columbia and the burgeoning suburbs. Even the older, inner suburbs are beginning to feel the strain of aging infrastructure and housing stock as they start to grow less rapidly than the outer suburbs in Virginia and Maryland. Reflecting this disparity, Fannie Mae's partnership office focuses exclusively on increasing homeownership opportunities in the District of Columbia. Lenders interviewed also focus their CRA lending in the District and the inner suburbs, where a considerable minority population resides. Therefore, the need to comply with CRA generates a substantial number of loans that can qualify for the existing housing goals.

GSE Performance

The Washington, D.C., metropolitan area is an area in which high volumes of loans helped the GSEs purchase relatively high levels of loans to minority and low- and moderate-income borrowers. In 1995 and 1996, primary lenders (that is, respondents under HMDA) originated and purchased 183,609 conventional, conforming single-family loans in the Washington metropolitan area. This is the highest level of loan purchases and originations observed in any of the sites selected for field visits. Fannie Mae, Freddie Mac, and other institutions purchased 50 percent of these loans. This is a slightly higher level of secondary market purchases than that found in Houston and Columbus, and is twice as much, in

percentage terms, as the level of purchases in Pittsburgh. Fannie Mae purchased 17 percent of all the single-family loans. Freddie Mac purchased 11 percent of the total (see exhibit 9).

Lending institutions and the GSEs also came closer to serving low- and moderate-income households in proportion to their population in the Washington, D.C., area than in the other metropolitan areas analyzed.[7] Exhibit 10 shows that low- and moderate-income households (with incomes up to 80 percent of median) constitute 38 percent of the household population. All lenders, as a group, made 37 percent of their conventional, conforming single-family loans to these households. About 32 percent and 31 percent of Fannie Mae's and Freddie Mac's purchases, respectively, were loans offered to low- and moderate-income households.

There is, however, a clear disparity in the extent to which primary market lenders and the GSEs served moderate-income as opposed to low-income households in the D.C. area. Financial institutions served moderate-income households in proportion to their population. Moderate-income households constituted 18 percent of the population (see exhibit 10). Primary lenders offered 25 percent of their conventional, conforming single-family loans to this income group. Fannie Mae and Freddie Mac were not far behind at 24 percent and 23 percent, respectively. In contrast, low-income households made up 20 percent of the household population and received just 12 percent of all loans. About 8 percent of both GSEs' purchases were mortgages made to low-income populations.

Exhibit 9

Washington, D.C., Metropolitan Area Primary and Secondary Market Activity, 1995–96[a]

Primary Market[b]	Number of Loans	Percentage Share of Loans Sold	Percentage Share Purchased	
			Fannie Mae	Freddie Mac
Originated	152,745	51%	17%	11%
Purchased	30,864	48	16	12
Total	183,609	50	17	11

[a] Conventional, conforming loans on owner-occupied single-family properties.
[b] Action reported by the HMDA respondent.
Source: Compiled from HMDA Loan/Application Register data, 1995–96.

Lending institutions in the D.C. area reached a larger proportion of Black households than GSEs. Black households received 18 percent of all conventional, conforming single-family loans issued in the Washington, D.C., MSA, as exhibit 10 shows. Loans to Black households were only 14 percent and 13 percent of Fannie Mae's and Freddie Mac's purchases, respectively. Black households constituted one-quarter of all households in the metropolitan area. Both lenders and GSEs were more successful in reaching Hispanic households, which constituted 4 percent of the households in the MSA. All lenders, as a group, made 3 percent of their loans to Hispanics. Four and 3 percent of the GSEs' purchases were loans made to Hispanics.

GSE performance in serving D.C. area low- and moderate-income neighborhoods (census tracts with a median income of up to 80 percent of area median income) was similar to that of primary lending institutions. Exhibit 11 indicates that primary lenders, as a group, issued 16 percent of their conventional, conforming single-family loans in low- and

Exhibit 10

Washington, D.C., Metropolitan Area Single-Family Loans by Borrower Income and Race/Ethnicity, 1995–96[a]

	Percentage Share		Percentage Share Purchased	
	Households	**Primary Market[b]**	**Fannie Mae**	**Freddie Mac**
Borrower income (% of AMI)				
Low (up to 50%	20	12	8	8
Moderate (51–80%)	18	25	24	23
Middle (81–120%)	23	33	38	38
Upper (above 120%)	39	30	30	31
Total[c]	100	100	100	100
Borrower race/ethnicity				
White, non-Hispanic	67	70	71	73
Black, non-Hispanic	25	18	14	13
Other, non-Hispanic	4	3	4	4
Hispanic	4	3	4	3
Mixed	NA	6	7	7
Total	100	100	100	100

Note: AMI = area median income.

[a] Conventional, conforming loans on owner-occupied single-family properties.
[b] Share of loans originated or purchased by HMDA respondents.

Sources: Compiled from HMDA Loan/Application Register data, 1995–96, and U.S. Census, 1990.

moderate-income census tracts. About 12 percent of both GSEs' purchases were loans made in these census tracts. According to Financial Modeling Concepts (FMC) 17 percent of the creditworthy and potential borrower households in the D.C. MSA resided in low- and moderate income census tracts. Therefore, primary lenders and the GSEs were serving households in low- and moderate-income neighborhoods almost in proportion to the number of these households that were creditworthy and likely to borrow.

By contrast, lenders and the GSEs did not offer home purchase loans in proportion to the population of creditworthy renters in low- and moderate-income census tracts. According to FMC, approximately 24 percent of renters who are creditworthy and likely to want to buy homes lived in low- and moderate-income census tracts. All lenders, as a group, issued just 12 percent of their home purchase loans in these areas. About 11 percent of both GSEs' home purchase loans were made in low- and moderate-income census tracts (see exhibit 12).

Economic and Demographic Context

Fannie Mae and Freddie Mac officials stated during interviews that the GSEs tend to purchase a greater volume of mortgages made to minorities and low-income populations in areas such as the D.C. MSA, where median incomes are high relative to housing prices. The D.C. MSA is a rapid-growth area with high-income employment opportunities in Federal agencies, large law firms and trade associations, and technology-related

industries. Blue-collar workers and office support staff earn high pay relative to their counterparts elsewhere. Therefore, while the cost of housing is high, so are family incomes. Although the housing price-to-income ratio is not as low in the D.C. MSA as in the other metropolitan areas analyzed for this research, low- and moderate-income borrowers in the D.C. MSA may have fewer difficulties with downpayment and closing cost requirements.[8] Low- and moderate-income borrowers in the Washington metropolitan area have income levels that are considerably higher than those in the other case-study areas. Thus, more D.C. borrowers may have been able to accumulate savings for downpayments and closing costs.

Exhibit 11

Washington, D.C., Metropolitan Area Single-Family Loans by Neighborhood Income, 1995–96[a]

Tract Median Income	Percentage Share: Households	Percentage Share: Likely and Creditworthy Borrowers[b]	Percentage Share: Primary Market[3]	Percentage Share Purchased: Fannie Mae	Percentage Share Purchased: Freddie Mac
Low/moderate (up to 80% of AMI)	22	17	16	12	12
Middle/upper (above 80% of AMI)	78	83	84	88	88
Total	100	100	100	100	100

[a] Conventional, conforming loans on owner-occupied single-family properties.
[b] See Case Study Organization and Crosscutting Methodological Issues section for definition of likely and creditworthy borrowers.
[c] Share of loans originated or purchased by HMDA respondents.

Sources: Compiled from HMDA Loan/Application Register data, 1995–96; U.S. Census, 1990; and Financial Modeling Concepts, 1997.

Exhibit 12

Washington, D.C., Metropolitan Area Home Purchase Loans by Neighborhood Income, 1995–96[a]

Tract Median Income	Percentage Share: Renter Households	Percentage Share: Likely and Creditworthy Homebuyers[b]	Percentage Share: Primary Market[c]	Percentage Share Purchased: Fannie Mae	Percentage Share Purchased: Freddie Mac
Low/moderate (up to 80% of AMI)	29	24	12	11	11
Middle/upper (above 80% of AMI)	71	76	88	89	89
Total	100	100	100	100	100

[a] Conventional, conforming home purchase loans on owner-occupied single-family properties.
[b] See Case Study Organization and Crosscutting Methodological Issues section for definition of likely and creditworthy borrowers.
[c] Share of loans originated or purchased by HMDA respondents.

Sources: Compiled from HMDA Loan/Application Register data, 1995–96; U.S. Census, 1990; and Financial Modeling Concepts, 1997.

Despite the favorable impact of economic conditions in the D.C. area on the opportunity for the GSEs to finance loans meeting the affordable housing goals, considerable disparities across the region have influenced local affordable housing initiatives. The Washington metropolitan area has experienced the stresses and strains of uneven population and employment growth. While the District of Columbia has lost population at a rapid rate and the inner suburbs have grown slowly, the outer suburbs have experienced almost exponential growth. Since 1990 the District of Columbia has lost more than 65,000 residents. According to the Council of Governments of Metropolitan Washington, the inner suburbs will continue to have the largest number of people, 2.6 million, of any part of the metropolitan area by 2000. The outer suburbs, however, will experience the fastest growth, from a population base of 700,000 in 1990 to a projected 947,000 in 2000.

Public- and private-sector agencies interviewed for this study have pursued strategies to reverse the population flight out of the District of Columbia, particularly among moderate- and middle-income homeowners. Given the condition of public schools and the job growth in the suburbs, this will be a challenge, but not an impossible proposition. According to the District of Columbia Tax Revision Commission, the city lost only 4 percent of its households with annual incomes between $50,000 and $99,999 from 1990 to 1996, and actually experienced an 11-percent increase in its households with annual incomes over $100,000. The $50,000 to $99,999 income bracket is part of the population group that local officials hope to attract and retain in the city.

Perhaps the key to the retention of moderate- and middle-income households in the District will be the city's attractiveness to its new immigrant and traditional African American populations. Consisting largely of working-class Hispanics, the immigrant population originally settled in city neighborhoods such as Adams-Morgan but is now moving in larger numbers to Northern Virginia and other suburban neighborhoods. While most of the District is still African American, a considerable African American professional class now resides in the inner suburbs of Prince George's County, Maryland.

The District of Columbia Housing Finance Agency (DCHFA) is one agency that is determined to stem population loss by retaining middle-income homeowners and attracting others back into the city. The Fannie Mae partnership office is also focused exclusively on D.C., concentrating on a few well-executed moderate- and middle-income homeownership projects around the city. Lenders, for their part, have concentrated their CRA-related lending in the city and inner suburbs because these areas are most likely to generate loans to low- and moderate-income populations that count for CRA exams.

It is noteworthy, however, that although these public and private agencies have pursued inner-city development strategies, they have not felt compelled to come together in an extensive collaborative effort. Therefore, in terms of the framework developed for this research, the local affordable housing system and the GSEs' business system remain largely separate.

Descriptions of Affordable Lending Programs

Fannie Mae Partnership Office. As stated above, the Fannie Mae partnership office has chosen to focus its energies on the District of Columbia. Fannie Mae has established partnership offices around the country that help meet housing needs through a variety of strategies. As the case studies illustrate, the partnership offices operate on a decentralized basis and have chosen different strategies for promoting homeownership.

Fannie Mae's District of Columbia partnership office acts more like a developer than a finance agency. It concentrates on actual housing developments in the city as opposed to modifying Fannie Mae products for local conditions. Partnership office staff indicated that the flexibility of Fannie Mae's products and other affordability issues were not as pressing in the D.C. metropolitan area as the need to revitalize the city. Moreover, they suggested that the provision of quality homeowner housing is just as important to the goal of attracting middle-income residents as higher profile efforts to improve schools and reduce crime. The partnership office hopes that it can produce models of successful homeownership developments in the city that developers and lenders will want to replicate.

Since 1994 the partnership office has embarked on two major development projects. The Woodridge development in northeast D.C. consisted of approximately 40 new homes in its first phase. The homes ranged in price from $140,000 to $180,000. There were no income limits for the home purchasers. Completely sold out, the Woodridge development demonstrates that middle-income people will buy new homes in the District and live in mixed-income communities, according to the partnership office. The Woodridge development is adjacent to a public housing complex that also has been rehabilitated.

The other major project undertaken by the partnership office is in the Ledroit neighborhood near Howard University. The university owned several housing properties that had become vacant over the years. In an effort to revitalize the neighborhood and to reduce its stock of underutilized real estate, the university started to rehabilitate and sell homes at no profit. Fannie Mae used its Housing Impact Fund to provide both predevelopment and construction financing for the project. The development consists of about 42 homes with price ranges of $90,000 to $160,000. Howard University employees as well as some long-time neighborhood residents have used a university-sponsored program to obtain assistance with downpayments.

District of Columbia Housing Finance Agency. As noted, DCHFA also has adopted a moderate- and middle-income retention strategy, financing subsidized loans in Washington, D.C.

According to officials interviewed for the study, the agency's strategy has benefited from the highest income limits of any housing finance agency in the country. In the mid-1990s, DCHFA's income limits ranged from approximately the median income to substantially higher than the median income. Furthermore, officials hope that the agency's market presence in the District will contribute to the continued success of its efforts to target moderate- and middle-income earners. DCHFA finances 360 to 400 mortgages a year, which was about 10 percent of the loans issued in the District annually during the study years.

Two factors have restricted the extent to which the GSEs' business system has supported this local affordable housing initiative. First, although Fannie Mae purchases bonds that the agency floats to finance its homeownership products, lately DCHFA has marketed its bonds aggressively to banks and other investors in an effort to stimulate competition and thereby obtain favorable rates. Second, most mortgages financed by DCHFA are Government insured. Therefore, on the back end, DCHFA-financed loans are likely to be sold on the secondary market to the Government National Mortgage Association (Ginnie Mae) instead of the GSEs. In this case, therefore, the GSEs' business system has not yet merged with the affordable housing system to facilitate the purchase of mortgages made to underserved populations.

Locally Owned Banks. Riggs Bank, NA, is a locally owned bank that offers a high volume of loans to minorities. For a number of years, Riggs remained a portfolio lender that did not have extensive business relationships with either GSE. This was partly because of pricing issues and partly because of an interest rate environment that reduced the bank's exposure to risk on its portfolio loans. The bank's policy may change in the future, however, since the bank has established an affordable housing program in conjunction with local churches and Fannie Mae.

Riggs excels in making loans to minorities. All lenders, as a group, issued 19 percent of their single-family loans to African Americans in 1996.[9] Riggs made nearly 40 percent of its loans to African Americans in that year. Likewise, Riggs made more than 6 percent of its loans to Hispanics, whereas all lenders, as a group, made about 3 percent of their loans to Hispanics. Riggs' record of offering loans to low- and moderate-income borrowers also outstrips the performance of other primary lenders in the D.C. area market.

Riggs' success, particularly with minority borrowers, can be attributed to its marketing strategy and its institutional relationships. Riggs officials stated that they instruct correspondents to concentrate their home lending in predominantly African American sections of the metropolitan area such as Anacostia in the District and Prince George's County in Maryland. When the bank markets its products in the outer suburbs, it finds that the customer base is mostly White and has a narrower income range.

Riggs has partnerships with community organizations that provide homeownership counseling and offer homeownership products with flexible underwriting criteria. The bank continues to expand its partnerships with community organizations. Recently, Riggs was selected as the only nonminority-owned bank that will participate in a homeownership program offered by a coalition of more than 100 African American churches (the coalition also chose three other minority-owned banks as partners). The churches will coordinate homebuyer clubs and homeownership counseling efforts. Riggs will be one of the banks originating mortgages and Fannie Mae will purchase the mortgages.

The bank offers a range of affordable products that include 3-percent downpayment Federal Housing Administration (FHA) and Fannie Mae products and below-market interest mortgages. Although many of Riggs' mortgages conform to secondary market criteria, Riggs has chosen to be a portfolio lender for a number of years. Because interest rates have declined in the past few years, the loans in portfolio have higher interest rates and thus are earning good returns. Riggs periodically sells seasoned loans to Fannie Mae but often finds that the price for which Fannie Mae offers to buy the loans is too low in relation to the returns the loans are making by remaining in portfolio. Riggs has also established a construction loan fund with Fannie Mae. Each institution has contributed $10 million to the fund. The fund helped finance the Ledroit project discussed previously. Since Riggs is a relatively small local bank, it does not have the same resources as larger financial institutions to develop business relationships with both Fannie Mae and Freddie Mac. Riggs has not sold loans to Freddie Mac.

Like Riggs Bank, Chevy Chase Bank has not focused its business relationship with Fannie Mae and Freddie Mac on affordable housing programs. A locally owned bank, Chevy Chase and its affiliate, B.F. Saul Mortgage Company, is usually within the top 10 or 20 lenders in terms of overall market share of home loans in the Washington, D.C., area. Like Riggs, Chevy Chase makes a substantial number of loans to African Americans. In 1996 the bank made 30 percent of its loans to African Americans—a portion that is 10 percentage points higher than the aggregate peer figure.

Complying with the CRA seems to be more of a factor than relationships with GSEs in Chevy Chase's lending record. In a 1994 settlement with the U.S. Department of Justice over alleged violations of CRA and other fair lending laws, Chevy Chase agreed to provide about $140 million in mortgage financing for minority communities. The mortgage products featured below-market interest rates, fee waivers, and bank-funded grants for downpayments. In particular, Chevy Chase has closed approximately $18 million of loans offered to borrowers that completed HomeFree's counseling course (described below). Chevy Chase has targeted much of its affordable lending to the District of Columbia and Prince George's County, Maryland, in a successful effort to reach African American populations.

HomeFree USA is a nonprofit homeownership-counseling agency that works with Chevy Chase and other banks. It has established a relationship with Freddie Mac that has resulted in a relatively new and promising program. The program, however, has not reached a large enough scale to have a direct impact on Freddie Mac's performance under the GSE goals in the Washington metropolitan area. Like Fannie Mae's relationship with Riggs Bank, HomeFree's program may eventually lead to closer linkages between Freddie Mac's business relationships with several area lenders and those lenders' affordable housing initiatives.

HomeFree attracts program participants through its relationships with churches. HomeFree has established numerous affordable homeownership programs with lenders. Recently, it established a program featuring a $500 downpayment product called the Freedom Fund mortgage. Chevy Chase and Crestar Banks will originate the mortgages, and MGIC (Mortgage Guaranty Insurance Corporation) will provide mortgage insurance on the loans. Freddie Mac has agreed to purchase the loans. In addition, because HomeFree will provide pre- and postpurchase counseling, Freddie Mac has agreed to flexible underwriting guidelines. Freddie Mac has also agreed to assume losses normally assumed by lenders on foreclosed loans.

National Lending Institutions. So far, the Norwest Corporation's business relationships with the GSEs have not been used to leverage affordable lending opportunities, at least not in the D.C. metropolitan area. The lender's Minneapolis, Minnesota, office negotiates contracts with Fannie Mae and Freddie Mac. Furthermore, while Norwest has a major market presence in D.C., it does not outstrip its peers in lending to underserved populations. This may be because it has not concentrated its public-private partnership building in the D.C. metropolitan area. Norwest cites a lack of public-sector funding for affordable home purchase products that can be sold to the GSEs; however, Norwest has not approached public agencies in the D.C. metropolitan area to increase public subsidies for home mortgage downpayments.

According to the representative interviewed for this research, Norwest used Fannie Mae's products more than Freddie Mac's for the time period considered by the study. (This will probably change in the future, however, since a recent contract with Freddie Mac commits Norwest to selling more loans to Freddie Mac.) In 1995 and 1996, Fannie Mae made available a greater quantity of flexible underwriting products such as those that involve total debt-to-income ratios as high as 41 percent. Norwest, for example, uses Fannie Mae's Flex 97 product that requires low 3-percent downpayments, allows mortgage insurance to be canceled when mortgage payments equal 15 percent of the house's value, and has a debt-to-income ratio of 41 percent. Norwest, however, also uses a menu of Freddie Mac projects, including the innovative product offered through HomeFree USA described above.

Norwest created the Homeownership Assistance Program to increase its volume using Fannie Mae's Community Lending products. Under Fannie Mae's 3/2 program, the borrower pays a 3-percent downpayment and can use grants from nonprofit organizations or Government agencies for the other 2 percent. Norwest found that funding for the grant portion was limited. It thus used its access to the Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP) to secure funding for the 2-percent portion of the downpayment that can be paid using a grant. Under its Homeownership Assistance Program, Norwest will use AHP funding to provide a grant of up to $2,000 for downpayments made by low-income homebuyers.

North American Mortgage Corporation representatives stated that master sales contracts with the GSEs are negotiated with their headquarters office in Tampa, Florida. As is the case with Norwest, the lender has not integrated its decisionmaking under its affordable housing initiatives in the D.C. area with its business dealings with the GSEs.

North American had the 10th largest market share of single-family mortgages in the Washington, D.C., market in 1996. Approximately one-third of its mortgage originations are Government insured. North American offers standard Fannie Mae and Freddie Mac products. The company has a range of affordable products, including 3-percent downpayment home purchase loans and purchase-rehabilitation loans.

Conclusion

As stated above, favorable economic and demographic factors contributed to Fannie Mae and Freddie Mac purchasing a relatively high level of home loans made to traditionally underserved populations. Although housing prices are relatively high, so are median income levels. This means that minority and low- and moderate-income households will have higher incomes in D.C. than in other MSAs, making it easier for them to afford downpayments for home purchase loans or to qualify for home improvement and refinance loans if they are already homeowners. GSE representatives interviewed for this article stated that the GSEs tend to purchase a higher level of loans in markets with relatively high incomes and favorable income-to-housing-value ratios.

During the study years—1995 and 1996—the GSEs' business relationships with area lenders had not been integrated extensively with the local affordable housing system. Local lenders, such as Riggs Bank and Chevy Chase Bank, that made substantial amounts of loans to underserved communities engaged in much portfolio lending and did not emphasize the sale of loans made to minorities and low- and moderate-income borrowers in their contract negotiations with the GSEs. Likewise, Norwest and North American, large lenders with a national presence, conducted contract negotiations (associated with the business system) in offices outside the Washington, D.C., metropolitan area. Representatives of these lenders did not know if these contract negotiations included targets for home loans made to minority and low- and moderate-income populations in the D.C. area.

DCHFA plays a major role in financing homeownership for District residents. However, during the study years neither Fannie Mae nor Freddie Mac purchased significant amounts of DCHFA-financed mortgages. Fannie Mae has a partnership office in the District but the office acts in large part like a developer of moderate- and middle-income properties.

In future years, it is possible that stronger links will be developed between the local affordable housing system and the GSEs' business system. Riggs Bank is participating in a major initiative with other local lenders and churches to sell loans made to African

Americans and low- and moderate-income borrowers to Fannie Mae. Freddie Mac, for its part, buys loans made to graduates of a local homeownership-counseling program.

Houston, Texas

Houston is a case study of a metropolitan area in which Fannie Mae performed well relative to its performance in other areas, whereas Freddie Mac did not. Our research suggests that this pattern results largely from Fannie Mae's business relationships with the area's major mortgage lenders—that is, Fannie Mae's business system relationships. However, we also found that institutional developments specific to the local affordable housing system contributed to Fannie Mae's performance. In terms of the volume and characteristics of loans sold to the secondary market, therefore, this case study demonstrates that institutional relationships between and among the GSEs and the local affordable housing industry do matter.

The Houston metropolitan area enjoys relatively low-cost homeownership opportunities. However, area median incomes also are low (especially in the city of Houston), so the obstacles to homeownership can be prohibitive for many prospective buyers. During the 1990s lenders, public agencies, and others in the local housing industry collaborated to make homeownership more accessible, primarily through homebuyer counseling and downpayment and closing cost assistance programs. These efforts, some of which achieved national acclaim, successfully improved low- and moderate-income homebuyers' access to credit. More important for this research, these efforts also increased the GSEs' opportunities to purchase Houston area loans that meet the national housing goals. This fact, along with the predisposition of area lenders to sell to Fannie Mae and Fannie Mae's development of affordable products tailored specifically for the Houston market, helps explain the GSEs' differing performances.

Both GSEs have pursued a number of community-oriented initiatives in Houston, although Fannie Mae's efforts have achieved a higher profile, largely because they have been coordinated by a local partnership office that opened in 1995. Through its support for the city's housing and redevelopment efforts, the partnership office has played an important role in increasing the efficiency of the local affordable housing system and in priming the market for housing in some of the city's neediest neighborhoods. However, because of the nature and scale of its activities, the local partnership office has not had a direct influence on Fannie Mae's performance in terms of the characteristics of loans purchased from Houston area lenders. Interestingly, although Fannie Mae's business system and the local affordable housing system have come closer together in Houston than in the other case-study sites, this results more from direct negotiations between local lenders and Fannie Mae than from the activities of Fannie Mae's partnership office.

GSE Performance

This section examines the performance of the GSEs in the Houston area and compares the mortgage purchase activities of Fannie Mae and Freddie Mac to various demographic and primary market benchmarks. As discussed below, Fannie Mae clearly outperformed Freddie Mac in the purchase of loans for lower income and minority borrowers. Fannie Mae also marginally outperformed Freddie Mac in the targeting of loans for low- and moderate-income neighborhoods. Fannie Mae's activity closely matched the activity of the primary market in terms of income and racial/ethnic characteristics of borrowers and in the purchase of home purchase loans in low- and moderate-income areas. However, both the primary market and the GSEs fell short of demographic benchmarks for the same measures during the study period.

According to HMDA data, primary market lenders originated or purchased a total of 133,182 conventional, conforming loans in 1995 and 1996 combined. As exhibit 13 shows, approximately one-half (49 percent) of these loans subsequently were sold. Together, the GSEs purchased approximately one-third of the loans made by the primary market in these years, with Fannie Mae accounting for a larger share of the Houston area secondary market than Freddie Mac with 20 versus 12 percent of all purchases.

Fannie Mae not only outpaced Freddie Mac in terms of the volume of loans it purchased in the Houston metropolitan area, it also performed better than Freddie Mac in the purchase of loans made to lower income borrowers. Exhibit 14 compares the two GSEs' activities in terms of the share of conventional, conforming loan purchases that were made to borrowers at different income levels.

As indicated, a greater share of Fannie Mae's purchases involved loans for low- and moderate-income borrowers with incomes up to 80 percent of the area median income. Specifically, 6 percent of Fannie Mae's purchases assisted low-income borrowers (up to 50 percent of area median income), twice the 3-percent share achieved by Freddie Mac. Similarly, 18 percent of Fannie Mae's purchases assisted moderate-income buyers (between 51 and 80 percent of area median income) compared to just 12 percent for Freddie Mac. Exhibit 14 also shows that Fannie Mae's loan purchases closely matched the distribution of conventional, conforming loans made by primary market institutions, with the exception of loans to low-income borrowers, for which Fannie Mae's performance fell marginally short of the primary market activity. Compared to the share of households that fell into each income category, the GSEs and the primary market fell short in the provision of mortgages for low-income borrowers. Low-income households constituted a quarter (24 percent) of all Houston area households, considerably higher than the share of loans made to such households by the primary market or the share of loans purchased by either GSE.

Exhibit 14 indicates a similar pattern in terms of the share of the GSEs' loan purchases made to minority borrowers. In other words, a greater share of the loans purchased by Fannie Mae were made to minorities than were loans purchased by Freddie Mac, with the greatest disparity occurring for loans to Hispanics. Also, Fannie Mae's performance in the purchase of loans to minorities echoed the activity of Houston-area primary lenders, whereas Freddie Mac's did not. In contrast to the pattern for borrower income, the share of loans to minority buyers that were made by the primary market or purchased by Fannie Mae matched, at least in part, the minority share of all households. White, non-Hispanic households represented approximately two-thirds (65 percent) of Houston area households and approximately the same share of loans made by the primary market (69 percent) and purchased by Fannie Mae (67 percent). By contrast, more than three-quarters (77 percent) of the loans purchased by Freddie Mac between 1995 and 1996 were made to White, non-Hispanic buyers. The exception to this pattern was loans made to Black, non-Hispanic households. Activity by both GSEs and primary lenders fell short of this group's share of the household population.

The disparity between Fannie Mae and Freddie Mac was marginal in terms of targeting mortgages on properties located in low- and moderate-income areas (that is, census tracts with median incomes up to 80 percent of area median income). As shown in exhibit 15, 10 percent of loans purchased by Fannie Mae met these geographic criteria, compared to 7 percent of loans purchased by Freddie Mac. However, both GSEs did a poorer job of targeting loans to low- and moderate-income neighborhoods than Houston-area primary market lenders—lenders, by contrast, made 14 percent of their loans in such areas—and both GSEs fell even further short of the two demographic benchmarks. Based on the

Exhibit 13

Houston, Texas, Metropolitan Area Primary and Secondary Market Activity, 1995–96[a]

Primary Market[b]	Number of Loans	Percentage Share of Loans Sold	Percentage Share Purchased	
			Fannie Mae	Freddie Mac
Originated	113,455	47	19	10
Purchased	19,727	63	25	25
Total	133,182	49	20	12

[a] Conventional, conforming loans on owner-occupied single-family properties.
[b] Action reported by the HMDA respondent.

Source: Compiled from HMDA Loan/Application Register data, 1995–96.

Exhibit 14

Houston, Texas, Metropolitan Area Single-Family Loans by Borrower Income and Race/Ethnicity, 1995–96[a]

	Percentage Share		Percentage Share Purchased	
	Households	Primary Market[b]	Fannie Mae	Freddie Mac
Borrower income (% of AMI)				
Low (up to 50%)	24	9	6	3
Moderate (51–80%)	16	18	18	12
Middle (81–120%)	19	23	24	24
Upper (above 120%)	41	51	51	61
Total[c]	100	100	100	100
Borrower race/ethnicity				
White, non-Hispanic	65	69	67	77
Black, non-Hispanic	17	8	8	5
Other, non-Hispanic	3	3	3	3
Hispanic	15	14	15	8
Mixed	NA	6	7	6
Total[c]	100	100	100	100

[a] Conventional, conforming loans on owner-occupied single-family properties.
[b] Share of loans originated or purchased by HMDA respondents.
[c] Percentages may not sum to 100 due to rounding.

Sources: Compiled from HMDA Loan/Application Register data, 1995–96, and U.S. Census, 1990.

demographic profile and credit scores of potential borrowers, Financial Modeling Concepts (FMC) estimated that approximately one in five (19 percent) Houston-area households likely to seek a mortgage resided in low- and moderate-income neighborhoods. Nearly one in four (24 percent) households resided in the same type of neighborhood.

Exhibit 16 indicates that for home purchase (as opposed to refinance or home improvement) loans, the geographic distribution of Fannie Mae's activity was closer to the primary market. In the portion of the market that provided new homeownership opportunities,

therefore, Fannie Mae did as good a job as the primary market in extending credit to the neediest neighborhood.

Economic and Demographic Context

The Houston MSA consists of six counties, including Harris County (which incorporates the city of Houston) and the surrounding counties of Chambers, Waller, Liberty, Montgomery, and Fort Bend. In 1996 the population of the MSA stood at approximately 3.8 million, and the city of Houston had a population of approximately 1.7 million, which makes it the fourth largest city in the country. Between the 1990 census and 1996, the population of the entire MSA grew approximately 14 percent. This growth occurred throughout the metropolitan area. However, in a continuance of recent historical patterns, the outer counties and the unincorporated portion of Harris County grew at a faster rate than the city, where population grew just 7 percent.

For several reasons, Houston-area housing prices are comparatively low, with a median price of just $83,000 in 1996, according to the Houston Multiple Listing Service. In part this is determined by the relative abundance of inexpensive land. In addition, the Houston-area market was severely depressed following the oil bust and further undermined by the savings and loan association crisis and failure of several Houston-area institutions. Until fairly recently, therefore, the market did not support much new construction of low-cost housing because it was not possible to build a low-cost home that would be competitive with existing homes. The production of new housing in the outer counties and the fringes of the city in the 1970s and early 1980s attracted many residents from the inner city. This population shift exacerbated the abandonment of housing and disinvestment in older neighborhoods. Approximately 16,000 housing units in the lower income communities in the eastern half of the city have been lost, resulting in a serious problem with overcrowding and a shortage of quality affordable housing—most single-family homes within the city's inner loop were constructed prior to 1939.

Despite the area's low housing prices, the affordability of homeownership has been an ongoing concern for local policymakers. In part this concern is driven by the fact that area incomes are low, especially in the city. In recent years it also has been driven by the revival of the local housing market. With an incremental drop in the area's unemployment rate and the continued growth of the region's population, there has been upward pressure on housing prices in all but the neediest of the city's neighborhoods. Recently, housing prices in general, and new housing prices in particular, have started to rise, with the Houston-area median sales price exceeding $100,000 for the first time in 1998.

Influence of Institutional Factors on Government-Sponsored Enterprise Performance

To investigate what role, if any, institutional relationships play in determining the differing performances of the GSEs in the Houston metropolitan area, we conducted interviews with representatives from the local housing industry, including lenders, public-sector housing agencies, and nonprofit and for-profit housing developers. The insights gleaned from these interviews about the local affordable housing system, in general, and the local performance of the GSEs, in particular, are detailed below.

Lenders' Business Relationships With Government-Sponsored Enterprises. The lenders interviewed for this research—Bank United, Bank One Texas, Chase Bank of Texas, and NationsBanc Mortgage Corporation—demonstrate how lenders' relationships with the secondary market can vary. All but one of these institutions, Bank United, actively market Fannie Mae and Freddie Mac affordable lending products in the Houston

Exhibit 15

Houston, Texas, Metropolitan Area Single-Family Loans by Neighborhood Income, 1995–98[a]

Tract Median Income	Percentage Share: Households	Percentage Share: Likely and Creditworthy Borrowers[b]	Percentage Share: Primary Market[c]	Percentage Share Purchased: Fannie Mae	Percentage Share Purchased: Freddie Mac
Low/moderate (up to 80% of AMI)	24	19	14	10	7
Middle/upper (above 80% of AMI)	76	81	86	90	93
Total	100	100	100	100	100

[a] Conventional, conforming loans on owner-occupied single-family properties.
[b] See Case Study Organization and Crosscutting Methodological Issues section for definition of likely and creditworthy borrowers.
[c] Share of loans originated or purchased by HMDA respondents.

Sources: Compiled from HMDA Loan/Application Register data, 1995–96; U.S. Census, 1990; and Financial Modeling Concepts, 1997.

Exhibit 16

Houston, Texas, Metropolitan Area Home Purchase Loans by Neighborhood Income, 1995–96[a]

Tract Median Income	Percentage Share: Renter Households	Percentage Share: Likely and Creditworthy Homebuyers[b]	Percentage Share: Primary Market[c]	Percentage Share Purchased: Fannie Mae	Percentage Share Purchased: Freddie Mac
Low/moderate (up to 80% of AMI)	32	27	12	11	7
Middle/upper (above 80% of AMI)	68	73	88	89	93
Total	100	100	100	100	100

[a] Conventional, conforming home purchase loans on owner-occupied single-family properties.
[b] See Case Study Organization and Crosscutting Methodological Issues section for definition of likely and creditworthy borrowers.
[c] Share of loans originated or purchased by HMDA respondents.

Sources: Compiled from HMDA Loan/Application Register data, 1995–96; U.S. Census, 1990; and Financial Modeling Concepts, 1997.

area; however, the extent to which loans are underwritten for sale to the secondary market varies considerably even among the three that do. NationsBanc Mortgage underwrites nearly all of its loans for sale to the secondary market, while Bank One Texas and Chase Bank of Texas, both depository institutions, rely more heavily on their own portfolio products.

Bank United once used Fannie Mae’s 3/2 and Fannie 97 products extensively. However, because of concerns about the pricing of Fannie Mae’s affordable products, Bank United

developed a low-income affordable mortgage for its own portfolio. This portfolio product featured a 97-percent loan-to-value (LTV) ratio and a cap on closing costs. Through 1996, originations totaled approximately $80 million nationwide. In 1997 Bank United sold much of its mortgage business; however, it continues to market an affordable product through its remaining retail and wholesale operations in Texas and elsewhere in the Southwest. Currently, it provides an affordable product that uses funds from the Dallas Federal Home Loan Bank (FHLB) Helping Hand Program, an incentive program intended to encourage the use of FHLB advances. With $2.5 million from the Dallas FHLB, Bank United offers qualified homebuyers grants of up to $5,000, with a cap on closing costs. In 1997, approximately 1,000 mortgages were originated under this program in the Houston area and other parts of the bank's Texas assessment area under CRA.

The lenders interviewed in the Houston area also reported that decisions about sales to the secondary market typically are made without regard to location. At NationsBanc Mortgage, for example, loans that are originated in the Houston area are underwritten for sale to the secondary market; however, these loans are pooled with mortgages originated around the country and sold in accordance with national sales agreements negotiated in Charlotte, North Carolina. Similarly, the volume and characteristics of loans sold by Chase and Bank One to Fannie Mae and Freddie Mac are determined by national master sales agreements. Bank United, the one locally headquartered bank interviewed, also demonstrated how the business relationship with the GSEs influences Fannie Mae and Freddie Mac performance in the Houston area. Even though Bank United stopped marketing Fannie Mae's affordable products in 1993, Fannie Mae recently negotiated to purchase approximately 50 percent of the seasoned portfolio product originated by the bank between 1993 and 1996, or approximately $40 million in loans.

Public-Sector Homeownership Initiatives. Although the performance of the GSEs in the Houston metropolitan area is, at one level, a function of their business relationships with area lenders, a number of recent institutional developments within the local affordable housing industry have reinforced Fannie Mae's ability to purchase loans that meet the national housing goals. Strong relationships among local lenders, Government agencies, and others in the housing industry have produced several public-sector initiatives to address the obstacles to affordable home-ownership, both in the city of Houston and surrounding counties. The public sector's initiatives have increased the volume of Houston-area mortgages that meet the GSEs' national housing goals.

In the city of Houston, the Houston Housing Finance Corporation (HHFC) is responsible for providing homeownership assistance to low- and moderate-income households. In 1991 HHFC collaborated with the Houston Housing Partnership, a consortium of seven local lenders, to establish the city's first homebuyer assistance program using proceeds from the refinancing of HHFC bonds issued in the high-interest-rate environment of the early 1980s. This program, which met HHFC's obligations for the use of bond proceeds and lenders' obligations under CRA, originally consisted of three parts. HHFC offered borrowers zero-percent interest on soft second mortgages to assist with downpayment and closing costs. Participating lenders provided first mortgages with preferential terms including a cap on certain closing costs and a below-market interest rate. Finally, the lenders' consortium funded a local housing nonprofit to provide homebuyer education.

In the years since its inception, HHFC's program has evolved significantly. Since 1993 the city has contributed HOME program funds to assist homebuyers who earn up to 80 percent of the area median income, while HHFC has continued to use refinanced bond proceeds for buyers who earn up to the median income. There also has been an incremental increase in the amount of support offered under the program, including the introduction of special incentives to encourage the purchase of newly constructed housing. Today,

low- and moderate-income homebuyers can qualify for a forgivable loan of up to $3,500 for the purchase of an existing home or $9,500 for the purchase of a new home. Middle-income buyers can qualify for a zero-percent 10-year loan of up to $5,000 for the purchase of a new home. Perhaps most important, however, former Mayor Bob Lanier incorporated HHFC's program as a part of his Homes for Houston commitment to provide (rental and homeowner) housing assistance to 5,000 families annually for 5 years.

The net result of these changes has been twofold. First, the program has enlisted a much wider network of partners, including real estate agents, homebuilders, homebuyer education providers, and nearly 70 lenders. This shift is a testament to the program's importance in the city's housing market, although the broadening of the program has diluted some of its features—for example, participating lenders no longer finance the program's homebuyer counseling component. Second, the program has seen a significant increase in the number of homebuyers assisted. The volume of loan closings by HHFC has risen from approximately 650 in 1995 to approximately 1,700 in just the first 6 months of 1998. (These figures also include loans purchased from the local chapter of Habitat for Humanity.) In fact, in recent years the program has assisted between 15 and 20 percent of all low- and moderate-income homebuyers within the city limits.

Outside the city of Houston, the counties that make up the Houston metropolitan area also initiated homeownership programs, although these efforts have assisted fewer homebuyers due to lower funding levels. Harris County's Community Development Agency, for example, uses HOME funds to provide homebuyers with downpayment and closing cost assistance. As with the city program, income-eligible homebuyers can qualify for assistance on the purchase of an existing or newly constructed home anywhere within the county's service area—that is, unincorporated portions of Harris County plus a number of small, incorporated cities that participate in the county's HOME program. Participants receive homebuyer education and financial assistance through one of the county's subrecipients. In addition, assistance is provided through developers for the purchase of newly constructed housing in the county's low-income neighborhoods. Under both portions of the county program, homebuyers can qualify for assistance up to the difference between the actual downpayment and closing cost requirements and the buyer's minimum contribution of $500. On average, the county's soft second lien is approximately $3,000 for existing housing and $8,000 for newly constructed housing. In the 1997 program year, Harris County assisted approximately 350 low-income homebuyers.

Fannie Mae's Houston Area Products. While public-sector initiatives have spurred the origination of loans that would qualify for the national affordable housing goals, the extent to which such loans are sold to Fannie Mae has been influenced, at least in part, by Fannie Mae's development of mortgage products specifically for the Houston area. According to lenders interviewed for this research, Fannie Mae's development of mortgage products for the Houston area dates to the city's decision to support HHFC's downpayment and closing cost assistance program with HOME funds. With the increase in volume that accompanied the use of HOME funds, members of the Houston Housing Partnership wanted to ensure that first mortgages originated under the program could be sold to the secondary market (previously, most loans had been held in portfolio). Although participating lenders had existing business relationships with Fannie Mae, the sale of these mortgages required Fannie Mae's approval of several program features, including high LTV ratios and the use of HHFC's second lien for downpayments. Negotiations over these issues were complicated—HHFC originally balked at making changes to the second lien requested by Fannie Mae—but ultimately successful, and as a result there has been a strong incentive for lenders participating in HHFC to underwrite their mortgages for sale to Fannie Mae.[10]

Today, Fannie Mae offers three mortgage programs tailored specifically for the Houston market. The first, the Community Home Buyers Program, permits lenders to use one of five mortgage products including Fannie 97 and the 3/2 Option for first-time and low- and moderate-income homebuyers. This program is now used in conjunction with HHFC's downpayment and closing cost assistance program. In addition, Fannie Mae has introduced the Flexible 97 for Houston, an experimental, 3-percent downpayment product for homebuyers of all income levels throughout the metropolitan area. Finally, within the city of Houston, Fannie Mae offers a mortgage product for low- and moderate-income borrowers that permits a back-end debt-to-income ratio as high as 41 percent, when the higher ratio is the result of a car payment.

The last of these products, also known as the Drive-to-Work program, has not been marketed aggressively by area lenders. However, its development illustrates the comparative strength of Fannie Mae's institutional relationships with the Houston-area affordable housing industry. Initially, HHFC approached both GSEs to develop a program that would raise the back-end ratio to accommodate car loans. HHFC recommended that, in return, the program should include stronger mortgage insurance coverage with a city guarantee, a strong postpurchase counseling component, and a local, segregated loan servicing pool to allow more intensive loss mitigation. Although it did not incorporate all of HHFC's recommendations, Fannie Mae ultimately agreed to partner with the city and PMI Mortgage Insurance Company to create a $20 million mortgage experiment for Houston residents. By contrast, Freddie Mac opted not to pursue such a program, although shortly thereafter it did implement a similar program in collaboration with Mortgage Guaranty Insurance Corporation and local nonprofits in several other communities nationwide.

Fannie Mae's Partnership Office. As with the development of mortgage products, there is a disparity between Fannie Mae and Freddie Mac in terms of the community-oriented activities they have pursued in the Houston area. Freddie Mac has pursued initiatives with three Houston-area Community Development Corporations (CDCs), but Fannie Mae's activities have achieved a much higher profile. This is because Fannie Mae's activities have been more numerous and a local partnership office has coordinated them. The partnership office's efforts have reinforced Fannie Mae's relationships with others in the local affordable housing sector. However, because of the nature and scope of its activities, the partnership office has not had a major impact on Fannie Mae's performance in meeting the national housing goals.

Fannie Mae announced the establishment of the Houston partnership office in October 1995, but did not staff the office until January 1996. This timing is important for the current research for two reasons. First, because the office did not open until the start of 1996, it had little impact on Fannie Mae's local business during the period under study. Second, the fact that the official announcement of the office predated the staffing of its operation highlights the office's symbolic value. Today the partnership office has three staff members—two professional and one support. Intermittently, staff members from the national partnership office also provide support, especially when Houston is selected as the location to kick off a nationwide initiative or highlight a local experiment such as the Drive-to-Work program. In addition, the partnership office coordinates with the Fannie Mae Foundation on the implementation of Foundation activities in the Houston area.

The primary focus of the partnership office's activities is to support local partners with implementation of their own affordable housing strategies. Principally, this means assisting the city of Houston with its housing and rehabilitation plan since the partnership office's operation is focused almost entirely within city limits. As discussed below, the

partnership office's efforts have encompassed three main types of activity. These include providing financial support to prime the market for redevelopment in some of the city's neediest neighborhoods, building capacity in the local nonprofit sector to conduct development and provide homebuyer education, and promoting communication with and among others in the local affordable housing sector.

The partnership office administers a $10 million revolving line of credit to assist housing developers in the city's most distressed neighborhoods. This fund is not large enough to singlehandedly underwrite widespread redevelopment. However, it can be used on a targeted basis to prime the local market for privately or publicly funded activities. The fund has been used, for example, to support the development of middle-income housing as part of the city's efforts to rebuild the tax base and diversify the housing in some inner-city neighborhoods. In the Third Ward, the Third Ward Redevelopment Corporation is sponsoring the development of 60 new middle-income units over 3 years. Here the partnership office has negotiated an equity investment that will allow the minority-owned developer to secure private project financing. Fannie Mae also played a pivotal role in the creation of a tax-increment investment zone to underwrite some of the project's infrastructure costs.

One testament to the benefit accrued from the local partnership office's investments is that others in the local affordable housing sector now examine the possibility of Fannie Mae participation in any redevelopment effort. However, partnership office staff members report that technical assistance is the most valuable service they provide to many local nonprofit developers. Community groups frequently approach the partnership office for support needed to pursue proposed developments. As a result, the partnership office's efforts focus on building the capacity of local partners. One CDC, for example, proposed the development of an 80-unit project, even though the group lacked any development experience. The partnership office provided direction in terms of the issues the CDC needed to address to translate its vision into reality, including the retention of a staff member to lead the effort full time, the development of a market study, and the selection of a builder.

The partnership office also has sought to build capacity among Houston-area nonprofits that provide homebuyer counseling. In 1997 the partnership office played a key role in the development of a new Housing Counseling Collaborative that totally revamped the system for providing education to homebuyers participating in the HHFC downpayment and closing cost assistance program. Previously, homebuyer education had been conducted by a single nonprofit organization—Housing Opportunities for Houston. However, many local nonprofits saw the provision of homebuyer education for their community to be one of the critical roles they could play in increasing neighborhood opportunities for homeownership, so there was increasing pressure to open up this business to more organizations. The new collaborative achieves this goal by permitting any organization to offer counseling so long as its staff have been certified by HHFC. Furthermore, because the program uses a standard curriculum and provides training for trainers, it offers a mechanism for achieving an incremental increase in the quality of local homebuyer education. The collaborative also ties funding for homebuyer education to the number of loans that are actually closed instead of to the number of participants in homebuyer sessions, so program costs are contained. This is particularly important since participating lenders no longer underwrite homebuyer education financially.

In addition to its role in financing and building capacity in the local development sector, the partnership office plays an important role in facilitating communication between and among different local institutions. At one level this function is pursued formally with the

sponsorship of a housing roundtable group that examines new approaches to addressing the housing needs of low-income families. At another level, communication is at the core of everything that the partnership office does. This is underlined by comments from others in the local affordable-housing sector who believe that the partnership office plays an important role in collecting and disseminating information and is an important symbol of Fannie Mae's commitment to the Houston area but that it has little direct impact in terms of loan production.

Conclusion

The Houston case study confirms that a convergence of the GSEs' (in this instance, Fannie Mae's) business system and the local affordable housing system can improve the GSEs' metropolitan area performance. On one level, the GSEs' business relationships with area lenders remain separate from the local affordable housing system, with lenders' headquarters offices outside Houston negotiating contracts with the GSEs. However, area lenders negotiated a commitment from Fannie Mae to purchase affordable loans originated in conjunction with subsidized homeownership programs in the city of Houston and other local jurisdictions. This fact, along with the predisposition of area lenders to sell to Fannie Mae and Fannie Mae's development of affordable products tailored specifically for the Houston market, helps explain the GSEs' differing performances.

Columbus, Ohio

The Columbus MSA is an area in which Freddie Mac performed well relative to its performance in other areas, whereas Fannie Mae did not, during the study period. Freddie Mac's relatively good performance in the Columbus area was probably due to its contractual relationships with lenders. Although purchasing mortgages made to traditionally underserved populations was not an explicit component of the contractual process as far as we could observe, Freddie Mac may have been able to reach underserved populations due to the volume of loans it had committed to purchase in its contracts with Columbus area lenders.

In terms of the framework developed for this research, the local affordable housing system is not yet integrated with the business system for either GSE in Columbus. However, Fannie Mae has begun an effort to establish links with the affordable housing system in the Columbus metropolitan area. In addition to the usual business relationships with lenders, Fannie Mae has developed affordable housing products with the Ohio Housing Finance Agency (OHFA), the city of Columbus, Ohio State University, and the local affiliate of the Enterprise Foundation. Fannie Mae also has a partnership office in the Columbus metropolitan area. These institutional relationships are relatively new; therefore, they did not have a major impact on Fannie Mae's performance in the Columbus area according to the GSE affordable housing goals in the time period used for this research—1995 and 1996.

During 1995 and 1996, economic conditions may have contributed to the ability of banks and the GSEs to serve low- and moderate-income populations. Housing prices were affordable, and the Columbus area was experiencing steady growth, making it an attractive area for lenders and the GSEs to do business. However, because the Columbus metropolitan area has experienced steady growth, the policymakers interviewed for this study voiced a concern about the continued availability of affordable homeownership units, especially for lower income, service-sector workers. The public- and private-sector officials interviewed did not have pressing concerns about the ability to move mortgages to the secondary market. While lenders in Columbus have engaged in aggressive CRA

lending, there are relatively few nonconforming products accumulating in lenders' portfolios compared, for example, to the Pittsburgh MSA.

Given the economic conditions in Columbus, the challenge for the primary and secondary market will be to maintain, let alone increase, affordable lending. The private- and public-sector institutions seem to be gearing up their programs in anticipation of strains on the local housing and labor markets.

GSE Performance

In 1996 and 1995 lenders originated and purchased 85,407 conventional, conforming single-family loans in the Columbus metropolitan area. As shown in exhibit 17, the GSEs and other institutions purchased 47 percent of these single-family loans. Fannie Mae purchased 19 percent of the loans while Freddie Mac purchased 11 percent of the loans.

On a percentage basis, Fannie Mae and Freddie Mac purchased roughly equal shares of single-family mortgages that were made to traditionally underserved populations, as shown in exhibit 18. Nevertheless, the Columbus metropolitan area is an MSA in which Freddie Mac did relatively well compared to its performance elsewhere. In other MSAs, Freddie Mac tended to trail Fannie Mae, on average, in the percentage of affordable mortgages purchased (see exhibits 6 and 7).

Neither GSE purchased mortgages in proportion to the percentage of single-family loans made to low- and moderate-income and minority borrowers. Low- and moderate-income households constituted 40 percent of Columbus' household population. In 1996 and 1995, they received 29 percent of all conventional, conforming single-family loans made in Columbus. About 22 percent of both GSEs' purchases were mortgages made to low- and moderate-income households. Low-income households constituted 23 percent of the household population but received 9 percent of single-family loans. About 5 percent of both GSEs' purchases were mortgages made to low-income households. All lenders, as a group, originated about 20 percent of their conventional, conforming mortgages to moderate-income households—a greater percentage than the percentage of households that were moderate income (17 percent). Between 16 and 17 percent of both GSEs' purchases were mortgages provided to moderate-income households.

As revealed by exhibit 18, Black households constituted 11 percent of all households in the Columbus metropolitan area. They received 7 percent of all conventional, conforming single-family loans in 1995 and 1996. Approximately 5 percent of Fannie Mae's and 3 percent of Freddie Mac's purchases were loans made to Black households. Other minorities are not analyzed here because they were not a significant portion of the Columbus MSA population according to 1990 census data.

In contrast to the GSEs, lending institutions were serving creditworthy households in low- and moderate-income census tracts in proportion to their population. According to Financial Modeling Concepts (FMC) data, approximately 17 percent of creditworthy households that were likely to borrow resided in low- and moderate-income census tracts (see exhibit 19). All lenders, as a group, issued 16 percent of their conventional, conforming single-family loans in these census tracts in 1995 and 1996. Approximately 9 percent of Fannie Mae's and Freddie Mac's purchases were loans that were made in low- and moderate-income census tracts.

In the area of home purchase (as opposed to refinance and home improvement) lending, both the primary market and the GSEs did not reach creditworthy households in proportion to their population. Twenty-three percent of all creditworthy renters who were most

Exhibit 17

Columbus, Ohio, Metropolitan Area Primary and Secondary Market Activity, 1995–96[a]

Primary Market[b]	Number of Loans	Percentage Share of Loans Sold	Percentage Share Purchased	
			Fannie Mae	Freddie Mac
Originated	73,967	45	18	10
Purchased	11,440	63	26	18
Total	85,407	47	19	11

[a] Conventional, conforming loans on owner-occupied single-family properties.
[b] Action reported by the HMDA respondent.

Source: Compiled from HMDA Loan/Application Register data, 1995–96.

likely to buy homes lived in low- and moderate-income census tracts. All lenders, as a group, issued 11 percent of their conventional conforming home purchase loans to residents of low and moderate-income tracts. About 8 percent and 7 percent, respectively, of Fannie Mae's and Freddie Mac's purchases were issued to residents of low- and moderate-income census tracts (see exhibit 20).

Economic and Demographic Context

The Columbus MSA is conducive to GSE purchases because of steady appreciation of house values. At the same time, however, it is not an MSA where both GSEs perform well relative to their performance elsewhere (in contrast to the Washington, D.C., MSA). This could be because housing values have climbed faster than the incomes of low- and moderate-income workers, meaning that lenders and the GSEs may have experienced difficulties serving low- and moderate-income households. While the housing stock in the Columbus MSA was still more affordable than in other parts of the country during the study years 1995 and 1996,[11] housing affordability was becoming more of a concern, according to policymakers interviewed for this research.

The Columbus MSA has experienced steady growth and upward pressure on housing prices. A representative from the development industry estimates that property values have appreciated 4 to 5 percent annually (the industry representative characterized this growth as steady but not rapid). The new home market, according to this official, is an indication of the price increases in Columbus. He stated that 2,000 Columbus area new homes sold for less than $100,000 in 1990, but only 95 new homes sold for that amount in 1995. Lack of competition in the building industry and population growth have contributed to the price hikes. The same industry representative stated that three builders control 80 percent of the market in the Columbus metropolitan area.

Several factors have contributed to the strength of the Columbus area labor market. Columbus is a major transportation hub in the Midwest, with many assembly and warehousing operations. Columbus also is a foreign trade zone offering tax exemptions on goods shipped from overseas. It has a good distribution network of railroad lines and an Air Force Base. This type of industrial mix creates a demand for entry-level service workers, especially in the suburban portions of the metropolitan area. Homeownership costs, however, have increased faster than the wages of these entry-level service workers.

Exhibit 18

Columbus, Ohio, Metropolitan Area Single-Family Loans by Borrower Income and Race/Ethnicity, 1995–96[a]

	Percentage Share		Percentage Share Purchased	
	Households	**Primary Market**[b]	**Fannie Mae**	**Freddie Mac**
Borrower Income (% of AMI)				
Low (up to 50%)	23	9	5	5
Moderate (51–80%)	17	20	17	16
Middle (81–120%)	21	30	31	32
Upper (above 120%)	40	41	48	47
Total[c]	100	100	100	100
Borrower Race/Ethnicity:				
White, non-Hispanic	87	89	92	93
Black, non-Hispanic	11	7	5	3
Other, non-Hispanic	1	2	1	1
Hispanic	1	0	0	0
Mixed	NA	2	2	2
Total[c]	100	100	100	100

[a] Conventional, conforming loans on owner-occupied single-family properties.
[b] Share of loans originated or purchased by HMDA respondents.
[c] Percentages may not sum to 100 due to rounding.

Sources: Compiled from HMDA, Loan/Application Register data, 1995–96, and U.S. Census, 1990.

Exhibit 19

Columbus, Ohio, Metropolitan Area Single-Family Loans by Neighborhood Income, 1995–96[a]

	Percentage Share			Percentage Share Purchased	
Tract Median Income	**Households**	**Likely and Creditworthy Borrowers**[b]	**Primary Market**[c]	**Fannie Mae**	**Freddie Mac**
Low/moderate (up to 80% of AMI)	22	17	16	10	9
Middle/upper (above 80% of AMI)	78	83	85	90	91
Total[d]	100	100	100	100	100

[a] Conventional, conforming loans on owner-occupied single-family properties.
[b] See Case Study Organization and Crosscutting Methodological Issues section for definition of likely and creditworthy borrowers.
[c] Share of loans originated or purchased by HMDA respondents.
[d] Percentages may not sum to 100 due to rounding.

Sources: Compiled from HMDA, Loan/Application Register data, 1995–96; U.S. Census, 1990; and Financial Modeling Concepts, 1997.

Affordable Lending Programs

In terms of the framework developed for this research, the GSEs' business system was not integrated with the Columbus area affordable housing system during the study years 1995 and 1996. Freddie Mac did well in Columbus relative to its performance elsewhere, probably because of its business system relationships with major lenders in Columbus. As described below, Fannie Mae was establishing links with the affordable housing system in Columbus. Most of this activity occurred since 1996, so it did not have a direct impact on Fannie Mae's performance during the study years.

Exhibit 20

Columbus, Ohio, Metropolitan Area Home Purchase Loans by Neighborhood Income, 1995–96[a]

Tract Median Income	Percentage Share: Renter Households	Percentage Share: Likely and Creditworthy Borrowers[b]	Percentage Share: Primary Market[c]	Percentage Share Purchased: Fannie Mae	Percentage Share Purchased: Freddie Mac
Low/moderate (up to 80% of AMI)	28	23	11	8	7
Middle/upper (above 80% of AMI)	72	77	89	92	93
Total	100	100	100	100	100

[a] Conventional conforming home purchase loans on owner-occupied single-family properties.
[b] See Case Study Organization and Crosscutting Methodological Issues Section for definition of likely and creditworthy borrowers.
[c] Share of loans originated or purchased by HMDA respondents.

Sources: Compiled from HMDA, Loan/Application Register data, 1995–96; U.S. Census, 1990; and Financial Modeling Concepts, 1997.

National City Bank. Historically, National City Bank offered a high volume of aggressive CRA-related loans that the GSEs could not purchase because of a lack of mortgage insurance and other credit enhancements. This situation has changed, however, as National City has adopted tighter underwriting standards and cooperated with Fannie Mae's partnership office in developing loan products for the Columbus market. While National City did not sell a sizable share of its loans to either GSE during the study years, it intends to move more of its loans made in Columbus to the secondary market in the future.

National City offers a substantial share of its loans to low- and moderate-income borrowers. In 1996 National City issued 34 percent of its single-family loans to this population in the Columbus MSA, an amount that is higher than the aggregate peer (all lenders) percentage by 6 percentage points.[12]

National City is ahead of its peers in CRA lending because it was the first aggressive CRA lender among major banks in Columbus, according to bank officials interviewed for this research. National City, for example, was the first major lender in Columbus to offer a 100-percent LTV product with no mortgage insurance. Other features of this portfolio product, called Right Loan, included waiving cash reserve requirements and establishing a maximum of $500 required from the borrower for downpayment and all other closing costs. Because Right Loan experienced delinquency rates that were too high, the bank

approached several community organizations, including a statewide coalition of housing and homeless advocacy organizations, for input on how to redesign its CRA product. This process revealed a greater demand for a waiver of private mortgage insurance as opposed to relaxed downpayment requirements. So, National City introduced Home at Last, which is a 97-percent LTV product with no private mortgage insurance. This product requires 1 month of cash reserves, in contrast to Right Loan, which did not require reserves.

Because of National City's focus on CRA portfolio lending, it sold only a small share of its loans to Fannie Mae and Freddie Mac in 1996. Of the 1,339 conventional home mortgage loans it originated or purchased in the Columbus area during 1996, National City retained 693 loans or 51 percent. The bank sold 331 loans (or 24.7 percent of the total) to its affiliates.

To the extent that National City does sell loans to the GSEs, it tends to favor Fannie Mae products. The decision to sell loans to the GSEs is made in National City's headquarters in Miamisburgh, Ohio. Therefore, bank officials in Columbus could not offer insight into pricing or other issues driving secondary market decisions, but they credit Fannie Mae's partnership office with helping Columbus lenders adapt Fannie Mae's products. Previously, lenders had access to Fannie Mae Community Lending products that typically offered 5-percent downpayments. The partnership office helped introduce products that were more flexible in addressing the housing needs in the Columbus area, such as Flex 97, which is now available and offers 3-percent downpayments and waives income limits but requires borrowers to have credit histories that pass thresholds established by Fannie Mae's Desktop Underwriter. Finally, the emphasis on Fannie Mae products also reflects resource constraints, according to bank officials. Given staff limitations, the bank decided to focus its attention on Fannie Mae's products. However, this is a fluid situation, since the bank uses both Freddie Mac's Loan Prospector and Fannie Mae's Desktop Underwriter and is comparing both underwriting systems against each other.

Huntington Bank. Huntington Bank is ahead of its peers in CRA lending but not as far ahead as National City Bank. Huntington offered 30 percent of its single-family loans to low- and moderate-income borrowers, while all lenders, as a group, issued about 28 percent of their loans to these borrowers in 1996. Unlike National City, Huntington sold most of the loans it originated or purchased in Columbus to the secondary market. The bank sold 57.3 percent of its 1,671 conventional loans in 1996. Fannie Mae bought a greater share of these loans than Freddie Mac; however, the bank offers both Fannie Mae and Freddie Mac affordable products, including Freddie Mac's Affordable Gold, Fannie Mae's Flex 97, and Fannie Mae's Community Home Buyers. Huntington officials reported no significant impediments in getting affordable loans to the secondary market or to the GSEs.

City of Columbus. The city of Columbus recently implemented two major homeownership programs. The city's Department of Trade and Development operates a relatively new downpayment assistance program for low- and moderate-income families (those who earn up to 80 percent of the median income). Established in 1995, the Downpayment Assistance Program (DAP) offers a downpayment grant of up to $3,500 funded by CDBG. DAP assists approximately 400 homebuyers each year. FHA insures most of the first mortgages originated in conjunction with the program. Therefore, despite its scale, DAP does not have a major impact on the GSEs' activities in Columbus.

The city's second downpayment assistance product grew out of discussions between the mayor, area lenders, and Fannie Mae's partnership office. Under the Your Home Columbus program, the city finances downpayment loans of as high as $4,000. Several local

banks originate loans in conjunction with the program. Huntington Bank consolidates and services these loans. Fannie Mae helped finance the program with the purchase of a $600,000 tax note from the city. The program is an attempt to revitalize inner-city and inner-suburban areas by promoting economic diversity. It targets a higher income group than the city's other downpayment assistance program to attract middle-income families into city neighborhoods and stem population flight from the older neighborhoods. Specifically, it targets lower middle- and middle-income families (those who earn 80 to 120 percent of the median income)—the income group one notch higher than DAP. The first loans closed under the Your Home Columbus program in the fall of 1998.

Ohio Housing Finance Agency. Created in 1983, the Ohio Housing Finance Agency (OHFA) issues tax-exempt bonds to finance affordable home mortgages. In fiscal year 1997 the agency financed a total of $132 million in mortgages throughout the State of Ohio. This translated into 1,919 loans with an average loan amount of $69,154. The average income of the borrowers was $32,310, or about 80 percent of the median family income in most of the State's metropolitan areas. Franklin County and the Columbus metropolitan area receive a substantial portion of the mortgages on an annual basis. In fact, OHFA's director stated that the proceeds from each bond issue easily could be devoted entirely to the Columbus area, if the agency was not committed to assisting homebuyers statewide.

Like its participation in the Your Home Columbus program, Fannie Mae helps finance OHFA's program through the purchase of bonds. Although Fannie Mae's purchases typically constitute less than a majority of each bond issue, they reportedly send a strong signal to other investors about the quality of OHFA's paper. OHFA therefore views Fannie Mae's participation as important to the overall success of its program. Apart from this, however, the GSEs' participation in OHFA's program is limited. Freddie Mac has not invested in the program. Also, FHA insures most of the mortgages financed by the agency. Therefore, most are sold on the secondary market to Ginnie Mae.

Columbus Housing Partnership. The Columbus Housing Partnership is an affiliate of the Enterprise Foundation. The Housing Partnership develops mostly multifamily rental apartments but engages in some single-family development as well. According to a representative of the Housing Partnership, Fannie Mae has invested in four of the Partnership's multifamily Low-Income Housing Tax Credit projects. In addition, Fannie Mae financed $160,000 in infrastructure-related costs for a single-family project. Freddie Mac has not participated in the Housing Partnership's projects. This is additional evidence that Fannie Mae is developing institutional relationships with a broad array of actors while Freddie Mac deals directly with lenders that do business in the Columbus metropolitan area.

Fannie Mae's Partnership Office. The main focus of Fannie Mae's recent efforts to build institutional relationships in the Columbus area has been its partnership office. The partnership office was not in operation in 1995 and 1996, the research period for this study. But in its more than 2 years of operation, the partnership office has introduced a number of innovative affordable housing programs. Its initiatives have not yet achieved a great enough scale to have a major impact on secondary market performance. In other words, it has yet to link the local affordable housing system and Fannie Mae's business relationships with area lenders. The partnership office, however, is making headway in becoming a significant component of Columbus' affordable housing system.

The office has an advisory board that consists of public-sector officials from the city of Columbus and Franklin County, as well as representatives of lenders, nonprofit community organizations, and private-sector developers. In its quarterly meetings, the advisory

board discusses specific affordable housing issues and identifies housing needs. These discussions then lead to program development.

In its short existence, the partnership office has designed homeownership programs that are being offered in conjunction with lenders and public-sector organizations. These programs waive some requirements of the usual Fannie Mae affordable loan products, thereby encouraging lending that can contribute to Fannie Mae's attainment of the GSE affordable housing goals.

An example of a product developed specifically for the Columbus area is the downpayment assistance program developed with Ohio State University. Borrowers can receive a downpayment loan of up to $3,000 from Ohio State University. The borrower then usually has to contribute only 2 percent toward the downpayment. This program has no income caps. In contrast, Fannie Mae's typical 3/2 program (3-percent downpayment loan or grant, 2-percent borrower contribution) has a limit of 115 percent of the area median income.

The partnership office is also involved in a major initiative to coordinate homeownership counseling programs throughout the metropolitan area. The office has created an organization called Homeownership Network Services that will document the range and variety of counseling programs and identify gaps in the types of counseling offered and types of counseling needed in Columbus. The aim is to form a "continuum" of counseling services. The partnership office's involvement with this initiative may eventually increase Fannie Mae's opportunity to purchase loans made to counseling program graduates. For example, the use of Fannie Mae's underwriting system, Desktop Underwriter, may influence the ultimate secondary market destination of loans made to recipients of counseling.

The Columbus partnership office has a 5-year investment plan totaling $1.5 billion. This figure reflects all types of financing, including Fannie Mae's mortgage purchases, bond purchases, investments in low-income housing tax credits, and construction loans (offered to nonprofit developers through intermediaries). The partnership office's 5-year plan is part of Fannie Mae's overall $1 trillion commitment to the financing of affordable housing.

The Columbus area investment goal is not directly analogous to the application of the national GSE affordable housing goals at the metropolitan level. The publicly available portions of the investment plan did not specify the number of mortgages made to minority and low- and moderate-income populations that would be purchased by Fannie Mae. The investment goal, however, is an aspect of metropolitan-level planning that could help Fannie Mae establish itself as an integral part of Columbus' affordable housing system. To do so, Fannie Mae would have to coordinate its targets with the goal setting of public-sector agencies and lenders doing business in Columbus.

Conclusion

The Columbus MSA was a metropolitan area in which Freddie Mac performed well relative to its performance elsewhere. It is possible that this is because of Freddie Mac's business relationship with major lenders in the Columbus market. During the study years 1995 and 1996, neither GSE had established significant links between its business system and the Columbus affordable housing system. After 1996 Fannie Mae established a Columbus partnership office and has made a concerted effort to become involved in the local affordable housing system. The narrative above describes how some of these efforts, such as working with banks to tailor Fannie Mae products to the Columbus market, may help Fannie Mae bolster its purchases of loans made to underserved populations in future years.

Major lenders in Columbus had been engaging in portfolio lending and offering aggressive CRA-related loan products. The banks are now trying to sell more of the loans made to minority and low- and moderate-income borrowers to the secondary market. The data on single-family lending to low- and moderate-income neighborhoods show that lenders were making higher percentages of their loans to these communities in 1995 and 1996 than the GSEs were purchasing. While economic and demographic factors were conducive to GSE purchases in Columbus, policymakers in Columbus were concerned that steady (although not rapid) appreciation in housing values was starting to make it harder for low- and moderate-income populations to buy homes. The GSEs could be motivated by these concerns to involve themselves to a greater extent in the local affordable housing system in future years.

Pittsburgh, Pennsylvania

Pittsburgh is a metropolitan area in which neither Fannie Mae nor Freddie Mac purchased a high percentage of affordable mortgages relative to their performance elsewhere during the study period. Pittsburgh is a fascinating study of a well-developed affordable housing system that has not involved the GSEs in a significant manner. The city of Pittsburgh, nonprofit organizations, and lenders have established public- and private-sector affordable housing programs over the past several years. Now, however, the local affordable housing system is starting to experience some capacity constraints. The public sector and banks are soliciting GSE participation, but in fits and starts. Because the GSEs historically have not been involved in Pittsburgh's affordable housing system, their business relationships with area lenders do not involve explicit subgoals for purchases of loans made to traditionally underserved populations, as far as this study could determine.

Economic and institutional factors contributed to poor performance of the GSEs relative to their performance in other metropolitan areas. During site visits, public- and private-sector officials mentioned that the GSEs do not tend to purchase high volumes of mortgages in markets such as Pittsburgh's that are experiencing relatively stagnant home values.

Pittsburgh-based lenders have a long tradition of portfolio lending and not selling to the GSEs, partly as a result of community group activism regarding CRA. Starting in the late 1980s, the Pittsburgh Community Reinvestment Group (PCRG), a coalition of community development corporations (CDCs), and other communitybased organizations became active in the bank-merger approval process. As a result, Pittsburgh area banks signed a number of CRA agreements, committing banks to aggressive lending to lower income and minority neighborhoods. Major lenders held most CRA-related loans in portfolio since the home loans featured flexible underwriting criteria such as high LTV ratios and no mortgage insurance. Fannie Mae's and Freddie Mac's charters prohibited the GSEs from purchasing a substantial number of the loans, since they had LTVs above 80 percent and did not require mortgage insurance or other credit enhancements.

Lenders are now attempting to convert some of their CRA products into loans that Fannie Mae and Freddie Mac can purchase. Major banks are starting to encounter liquidity crunches because of the buildup of portfolio loans. As lenders move to tighten underwriting criteria to qualify the loans for GSE purchase, community organizations, public officials, and the area's most aggressive CRA lenders are concerned that fewer lower income and minority borrowers will be served.

A Fannie Mae product called the Residential Mortgage Underwriting Experiment has been introduced to the Pittsburgh market, but its fate remains uncertain. This mortgage product features a 97-percent LTV ratio, and gifts and grants can be used for most of the

3-percent downpayment requirement. A major portfolio lender is intent on offering loans with no mortgage insurance at a cost to the borrower that is very competitive with the Fannie Mae product. In addition, lenders and financial intermediaries are establishing alternatives to GSEs. Mellon Bank, for example, has sold a sizable amount of its CRA loan portfolio through the Wall Street firm Bear Stearns. The FHLB of Pittsburgh is attempting to fashion a product that will serve some of the secondary market functions of Fannie Mae's and Freddie Mac's products.

The GSEs may make some inroads into Pittsburgh in the next few years, although there are particular institutional arrangements and economic circumstances in this metropolitan area that could well prevent the GSEs from becoming the secondary market force they are in other areas. This limited GSE role in Pittsburgh does not necessarily spell the end of CRA-related lending. Lenders, public officials, and community organizations did not foresee a substantial decrease in affordable lending over the next year or two if portfolio lending continues. However, the consensus seemed to be that reducing the incidence of portfolio lending was a medium-term issue that needed to be addressed. The challenge for the GSEs, lenders, community organizations, and public-sector agencies will be whether they can fashion secondary loan products that will relieve pressures on lenders' portfolios while still being able to reach as far down the income scale as possible.

GSE Performance

In 1995 and 1996, lending institutions made or purchased 99,336 conventional, conforming single-family loans in the Pittsburgh area, as shown in exhibit 21. Fannie Mae, Freddie Mac, and other financial institutions purchased only 26 percent of the single-family loans. Fannie Mae and Freddie Mac purchased 7 and 5 percent of all originations and purchases, respectively. In other metropolitan areas selected for this study, a much higher percentage of loans were purchased. In the Washington, D.C., metropolitan area, for example, 50 percent were purchased.

Neither lenders nor the GSEs reached low- and moderate-income households in proportion to their household population in the Pittsburgh area, but the GSEs trailed lenders in serving these income groups. Low-income households (50 percent of median income) constituted 25 percent of the MSA's households but received only 8 percent of all conventional, conforming single-family loans in the Pittsburgh area in 1995 and 1996 (see exhibit 22). Two percent of Fannie Mae's and Freddie Mac's purchases were loans offered to low-income borrowers. Moderate-income borrowers were 16 percent of the household population. Lenders offered 18 percent of single-family loans to this income group—a percentage of loans commensurate with their population share. Only 10 percent of Fannie Mae's and Freddie Mac's purchases were single-family loans issued to moderate-income borrowers. Overall, lenders as a group made 26 percent of their conventional, conforming single-family loans to low- and moderate-income borrowers, while only 12 percent of the GSEs' purchases were mortgages made to this population.

The GSEs fell behind the primary market in reaching minorities, but the gap was not as great as it was for low- and moderate-income groups. As shown in exhibit 22, primary market lenders issued 4 percent of their conventional, conforming loans to Blacks. Between 1 and 2 percent of Fannie Mae's and Freddie Mac's purchases were loans made to Blacks. (Other minority groups are not analyzed here because they do not account for a significant portion of the population of metropolitan Pittsburgh.)

Lending institutions were issuing loans in proportion to the percentage of creditworthy and likely borrowers in low- and moderate-income census tracts, while the GSEs were far

behind in Pittsburgh. Financial Modeling Concepts (FMC) provided data on the numbers of creditworthy and likely borrowers in census tracts of different income categories. Low- and moderate-income census tracts contained 15 percent of the household population in Pittsburgh that was creditworthy and likely to borrow. All lenders, as a group, issued 17 percent of their conventional, conforming single-family loans to residents of low- and moderate-income census tracts in 1995 and 1996. Six percent of Fannie Mae's and Freddie Mac's purchases were loans made in these census tract categories (see exhibit 23).

In the category of home purchase lending, lending institutions almost lent in proportion to creditworthy and potential borrowers in low- and moderate-income census tracts. As exhibit 24 shows, low- and moderate-income census tracts contained about 19 percent of the total renter household population that was creditworthy and likely to buy homes. These census tracts received 16 percent of all conventional, conforming home purchase loans in the Pittsburgh MSA during 1995 and 1996. Five percent of Fannie Mae's and Freddie Mac's purchases were home purchase loans made in low- and moderate-income census tracts.

Economic and Demographic Context

The economic and demographic conditions in Pittsburgh do not favor a high degree of secondary market activity, according to those interviewed. The Pittsburgh housing market was described as stable with very little housing appreciation. As mentioned above, a substantial portion of Pittsburgh's affordable lending was high LTV with no mortgage insurance. It takes a homeowner a longer time to build equity equal to 20 percent or more of the value of the home in a metropolitan area with flat housing values than in areas with appreciating values. If a mortgage has no insurance, it can still be sold to the GSEs once a homeowner's equity exceeds 20 percent of the home's value (when equity exceeds 20 percent of value, mortgage insurance is no longer required). Thus, even selling seasoned loans is more difficult in Pittsburgh than it would be elsewhere because of the nature of the housing market. [13]

Several factors contribute to flat housing prices in Pittsburgh. During the interviews, it was mentioned that several thousand people move out of the metropolitan area each year. As a result, the Pittsburgh area has one of the highest concentrations of senior citizens of any MSA in the country. In addition, Pittsburgh has one of the lowest job growth rates of all MSAs. Population outflows and slow job creation create a buyer's market for single-family houses. It is still possible to purchase a good-quality home in Pittsburgh for

Exhibit 21

Pittsburgh, Pennsylvania, Metropolitan Area Primary and Secondary Market Activity, 1995–96[a]

Primary Market[b]	Number of Loans	Percentage Share of Loans Sold	Percentage Share Purchased	
			Fannie Mae	Freddie Mac
Originated	89,823	26	7	4
Purchased	9,513	35	11	9
Total	99,336	26	7	5

[a] Conventional, conforming loans on owner-occupied single-family properties.
[b] Action reported by the HMDA respondent.

Source: Compiled from HMDA, Loan/Application Register data, 1995–96.

approximately $40,000. In 1996 the HUD-estimated median family income was $38,200 in Pittsburgh. Thus, the income-to-loan ratio is favorable for the borrower in the Pittsburgh area.[14]

Affordable Lending Programs

As stated above, Pittsburgh-area lenders have been engaging in aggressive CRA-related lending featuring no private mortgage insurance and high LTVs. In an effort to move away from portfolio lending, banks worked with Fannie Mae and PCRG to design a new mortgage product in 1998. As the Fannie Mae product was being introduced into the marketplace, PNC Bank declined at the last minute to offer the product. PNC continued with a strategy of offering substantial amounts of loans with no private mortgage insurance. Other major lenders were not pleased, claiming that PNC was pursuing its own competitive ends without regard to local lenders' collective need to start selling a significant amount of their loans to the secondary market. These lenders claimed that low- and moderate-income borrowers would still have access to homeownership opportunities as portfolio lending declined. Although more mortgages would have private mortgage insurance, reduced downpayments and other features would make them accessible for those of modest means, according to this group of lenders.

A pioneer in the affordable lending arena is the Urban Redevelopment Authority (URA). URA used bond financing to issue affordable mortgages before the lenders started their aggressive CRA lending program. This section describes the new Fannie Mae product and the URA programs, as well as the affordable mortgage products of some Pittsburgh-area lenders.

Exhibit 22

Pittsburgh, Pennsylvania, Metropolitan Area Single-Family Loans by Borrower Income and Race/Ethnicity, 1995–96[a]

	Percentage Share		Percentage Share Purchased	
	Households	**Primary Market[b]**	**Fannie Mae**	**Freddie Mac**
Borrower income				
Low (up to 50% of AMI)	25	8	2	2
Moderate (51–80% of AMI)	16	18	10	10
Middle (81–120% of AMI)	18	26	26	26
Upper (above 120% of AMI)	41	47	62	62
Total[c]	100	100	100	100
Borrower race/ethnicity				
White, non-Hispanic	91	94	96	96
Black, non-Hispanic	8	4	1	2
Other, non-Hispanic	1	1	1	1
Mixed	NA	1	1	2
Total[c]	100	100	100	100

[a] Conventional, conforming loans on owner-occupied single-family properties.
[b] Share of loans originated or purchased by HMDA respondents.
[c] Percentages may not sum to 100 due to rounding.

Sources: Compiled from HMDA, Loan/Application Register data, 1995–96, and U.S. Census, 1990.

Residential Mortgage Underwriting Experiment. Lenders, community organizations, and Fannie Mae worked together to develop an affordable mortgage product that could be sold to Fannie Mae. The Residential Mortgage Underwriting Experiment features a 97-percent LTV product that can be offered to families with incomes of up to 100 percent of the area median income. Although a 3-percent downpayment is required, gifts and grants can cover up to 2 percent of the downpayment. Mortgage insurance is required. Ratios are a generous 33/41, meaning that housing expenses can equal 33 percent of yearly income and total debt payments can equal 41 percent of annual income. Fannie Mae's typical products have ratios of 33/38.

In most metropolitan areas, a product featuring a 1-percent downpayment would be embraced warmly by most actors in the affordable housing field. In Pittsburgh, however, reaction has been mixed. URA, PCRG, and some banks have expressed concerns that the product cannot reach as far down the income ladder as traditional no-mortgage insurance products being offered in Pittsburgh.

The Urban Redevelopment Authority. The Urban Redevelopment Authority of the city of Pittsburgh has been operating innovative home purchase and rehabilitation programs that involve a combination of bond financing, CDBG funding, and secondary market financing. Fannie Mae is involved in URA's Pittsburgh Home Ownership Program (PHOP) and the Housing Recovery Program (HRP). PHOP is a first-time homebuyers program, and HRP is a purchase-rehab program. URA issues bonds to finance both PHOP and HRP. Lenders in the Pittsburgh area originate first mortgages in conjunction with the programs. Then PNC Bank, the "master servicer," purchases the first mortgages, using URA's bond proceeds to acquire the mortgages. Fannie Mae securitizes PNC's portfolio of PHOP and HRP mortgages.

The PHOP and HRP mortgages are affordable because they require no mortgage insurance and feature low downpayments. URA is able to offer no mortgage insurance because

Exhibit 23

Pittsburgh, Pennsylvania, Metropolitan Area Single-Family Loans by Neighborhood Income, 1995–96[a]

Tract Median Income	Percentage Shares			Percentage Share Purchased	
	Households	Likely and Creditworthy Borrowers[b]	Primary Market[c]	Fannie Mae	Freddie Mac
Low/moderate (up to 80% of AMI)	20	15	17	6	6
Middle/upper (above 80% of AMI)	80	85	83	94	94
Total	100	100	100	100	100

[a] Conventional, conforming loans on owner-occupied single-family properties.
[b] See Case Study Organization and Crosscutting Methodological Issues section for definition of likely and creditworthy borrowers.
[c] Share of loans originated or purchased by HMDA respondents.

Sources: Compiled from HMDA, Loan/Application Register data, 1995–96; U.S. Census, 1990; and Financial Modeling Concepts, 1997.

Exhibit 24

Pittsburgh, Pennsylvania, Metropolitan Area Home Purchase Loans by Neighborhood Income, 1995–96[a]

Tract Median Income	Percentage Share: Renter Households	Percentage Share: Likely and Creditworthy Borrowers[b]	Percentage Share: Primary Market[c]	Percentage Share Purchased: Fannie Mae	Percentage Share Purchased: Freddie Mac
Low/moderate (up to 80% of AMI)	24	19	16	5	5
Middle/upper (above 80% of AMI)	76	81	84	95	95
Total	100	100	100	100	100

[a] Conventional, conforming home purchase loans on owner-occupied single-family properties.
[b] See Case Study Organization and Crosscutting Methodological Issues section for definition of likely and creditworthy borrowers.
[c] Share of loans originated or purchased by HMDA respondents.

Sources: Compiled from HMDA, Loan/Application Register data, 1995–96; U.S. Census, 1990; and Financial Modeling Concepts, 1997.

the lenders issuing the first mortgage have agreed to full recourse. In the event of a default, the lenders have agreed to assume full costs. URA offers a $1,000 closing-cost assistance grant funded by CDBG for PHOP and HRP mortgages. URA also offers a second mortgage under HRP, which, depending on rehabilitation needs and borrower income levels, can be a deferred loan of up to 20 to 40 percent of the total mortgage. Lower income families receive more generous deferred loans. Families with incomes as high as 100 percent of the median income can use both PHOP and HRP.

PHOP was likely to undergo significant changes after the field interviews were conducted for this research. Lending institutions have concluded that they can no longer afford to assume full recourse for the mortgages issued under the program. URA has been negotiating to have Fannie Mae assume partial recourse. At this point, Fannie Mae has declined to assume partial recourse. URA believes it may have to convert PHOP into a product that will carry mortgage insurance and that will not be as affordable for the borrower. URA believes that HRP, will continue with full lender recourse because the number of loans made during a typical year is considerably less than PHOP. URA estimated annual PHOP volume at 300 loans and HRP volume at 100.

PNC Bank Corporation. PNC Bank is a major lender that exemplifies the tentative approach lenders seem to have toward the GSEs in the Pittsburgh market. The GSEs do not purchase high volumes of mortgages, because some major lenders such as PNC are ambivalent about ending their portfolio lending. In fact, PNC's overall secondary market volume is relatively low. For example, the bank and its affiliated mortgage company originated 2,198 conventional loans in 1996. It sold only 90 of these to Fannie Mae and 193 of them to Freddie Mac.

In 1996 PNC Bank issued 4,941 single-family loans, which was approximately 9 percent of all single-family loans made in the Pittsburgh MSA. PNC extended 36.2 percent of its

loans to low- and moderate-income borrowers in 1996, while all lenders as a group issued 25.6 percent of their loans to these income groups.[15]

Since 1987, PNC has been offering its Neighborhood Mortgage Program (NMP) in the Pittsburgh market. This is an aggressive product that features no downpayments (100-percent LTV) and no mortgage insurance. It also has flexible underwriting criteria. PNC representatives stated that NMP underwriting looks at 12 months of credit history, in contrast to most products with mortgage insurance that will consider 24 months of credit history.

The NMP product is designed to overcome the major barriers of cash to close and credit history that confront lower income borrowers in Pittsburgh, according to bank officials. Lower income homebuyers do not have difficulties with monthly mortgage payments since housing is affordable in Pittsburgh. Although NMP has a market interest rate, borrowers have not had problems paying on time. Delinquency and default rates are low on NMP portfolio loans, according to PNC.

A few years ago, PNC attempted to tighten up the NMP product so that it could qualify as a Fannie Mae product. The bank, however, experienced volume losses that it did not want to sustain in the low- and moderate-income market. The bank loosened up the NMP product in 1997. As mentioned above, PNC decided not to offer the Residential Mortgage Underwriting Experiment product, much to the consternation of its competitors.

Even PNC is not immune to portfolio pressures. Although the bank holds fast to the portfolio lending tradition, its overall NMP lending volume has declined. PNC has lowered its goal for its NMP product to about $25 million in total loans in 1998. This is down considerably from $60 million in previous years. At the same time, PNC Mortgage Corporation is rolling out a Freddie Mac product. This is a 97-percent LTV product offered by its mortgage company in markets across the country. It is possible that PNC Bank lowered the dollar goals for its NMP product because it wants the Freddie Mac product to serve a segment of the customers in the NMP market.

National City Bank. National City Bank is one of the major lenders in the overall Pittsburgh market and in the low- and moderate-income portion of the market in particular. The bank has pulled back a bit from its aggressive CRA products to reduce the buildup on its portfolio.

National City has a 100-percent LTV product with no mortgage insurance. It increased the interest rate on this product 2 years ago to encourage more borrowers to use other National City products that can be sold to the secondary market. National City offers mortgages under the Residential Mortgage Underwriting Experiment discussed above. It also offers Fannie Mae's Flex 97 product with a 3-percent downpayment feature and no income limits. This product is designed for people with good credit history but with limited savings for downpayments.

Mellon Bank Corporation. Mellon Bank dealt with portfolio pressure recently by selling loans on Wall Street rather than striking long-term business deals with either GSE. In 1998 Mellon sold $335 million of its CRA portfolio of loans to low- and moderate-income borrowers on Wall Street. The investment firm handling the deal was Bear Stearns.

Market demand for CRA portfolio loans is currently high, according to Mellon officials. Reportedly, investment firms prefer CRA portfolios because there is less risk of loans being prepaid before their term is up. The low- and moderate-income purchasers acquired

the loans at a lower interest rate than they can currently obtain if they seek to refinance. Thus investors' prepayment risk is minimized. Mellon Bank's experience indicates that in the current interest rate environment, the GSEs face serious competition from Wall Street investors for CRA loans.

Federal Home Loan Bank of Pittsburgh. The FHLB of Pittsburgh is another potential source of competition for Fannie Mae and Freddie Mac. The FHLB official interviewed for this research stated that the GSEs enjoy a "risk reward" in some parts of the country. That is, the price they charge to buy mortgages from banks more than compensates them for the risk they assume with the mortgage purchases. Since the field interviews were conducted, FHLB of Pittsburgh has implemented the pilot program of FHLB of Chicago as a means of competing with Fannie Mae and Freddie Mac. Under the pilot program, the FHLB system assumes the interest rate risk of mortgages while banks assume the credit risk associated with mortgages. This program alleviates some of the risk for banks and thus provides benefits similar to those that occur when a bank sells mortgages to Fannie Mae and Freddie Mac.

FHLB also works with banks and Fannie Mae and Freddie Mac to increase the level of affordable lending in Pennsylvania. FHLB of Pittsburgh has a Homebuyer Equity Fund (HBEF) that offers grant assistance for downpayments of low- and moderate-income purchasers. For every $1 that a borrower commits for a downpayment, FHLB will offer a $3 match, up to a maximum of $5,000. HBEF is used in conjunction with Fannie 97, which is one of Fannie Mae's 3-percent downpayment products. A borrower using HBEF grants must undergo homebuyer counseling. So far HBEF has been used mostly in Altoona, Pennsylvania, but will be expanded into Pittsburgh in the near future. National City is one of the participating lenders.

Conclusion

The affordable housing system in Pittsburgh is well developed. URA has been operating innovative bond-financed home purchase and rehabilitation programs that also combine bank loans and subsidies from HUD programs. The banks have been offering aggressive high-LTV products for a number of years. Starting in the late 1980s, a citywide CRA advocacy group, PCRG, established partnerships with a number of local lenders to help them pursue profitable lending opportunities in inner-city neighborhoods. The results of the partnerships between the city, PCRG, and the lenders are impressive. Lenders in the Pittsburgh MSA come closer than lenders in the other case-study MSAs in serving credit-worthy renters living in low- and moderate-income census tracts in proportion to their population. According to FMC data, 19 percent of the creditworthy renters likely to buy homes resided in low- and moderate-income neighborhoods. All lenders, as a group, made 16 percent of their conventional, conforming home purchase loans in these census tracts. Only 5 percent of Fannie Mae's and Freddie Mac's purchases of similar mortgages were loans made in low- and moderate-income census tracts.

Economic and demographic conditions were not conducive to an active secondary market in the Pittsburgh area. It is also clear that the GSEs performed poorly in Pittsburgh relative to their performance elsewhere because their business relationships with area lenders were not integrated with the efforts of the local affordable housing system. The affordable housing system in Pittsburgh has been well established in the city for a number of years, long before the GSE housing goals motivated the GSEs to increase their business in low- and moderate-income markets. An attempt to introduce a Fannie Mae product in the Pittsburgh market remains uncertain. While the banks in the Pittsburgh MSA desire to reduce the amount of their portfolio lending, it is likely that they will continue exploring

alternatives to the GSEs, including the FHLB system and Wall Street. In contrast to Pittsburgh, the GSEs in Washington, D.C.; Houston, Texas; and Columbus, Ohio, seemed to be more successful in establishing linkages in the affordable housing system and offering new products.

Conclusions and Policy Implications

This section summarizes the study's conclusions and provides recommendations regarding the potential utility of metropolitan housing goals and other measures and strategies that HUD might consider in its oversight of the GSEs.

Cross-Site Summary

Institutional Relationships: The Affordable Housing and Business System. Institutional relationships can bolster the GSEs' efforts to serve minority and low- and moderate-income populations. In the Houston case study, institutional relationships played a significant role in Fannie Mae's ability to reach traditionally underserved populations. In the Washington, D.C., and Columbus case studies, institutional relationships were not as well developed but helped serve niche markets or particular neighborhoods. In the Pittsburgh case study, the absence of linkages between the affordable housing and business systems contributed to an inability of the GSEs to serve minority and lower income households.

In Houston, a convergence between the local affordable housing system and the GSEs' business system significantly improved the performance of Fannie Mae in terms of the affordable housing goals. A consortium of lenders successfully negotiated with Fannie Mae to purchase mortgages from an affordable homeownership program that has served 15 to 20 percent of the low- and moderate-income homebuyers in the city of Houston in recent years.

In the Washington, D.C., and Columbus metropolitan areas, institutional relationships were in an earlier stage of development than in Houston. In Washington, D.C., a handful of local lenders had negotiated with Fannie Mae to purchase the mortgages offered to graduates of local counseling programs. Freddie Mac had also joined forces with local lenders and a homeownership counseling organization. In Columbus, the Fannie Mae partnership office was busy involving itself with the affordable housing programs of lenders and public-sector entities. It is not clear to what extent the local affordable housing system and the GSEs' business system will merge in Columbus and Washington, D.C. While the GSEs' participation in the affordable housing system in Columbus and Washington, D.C., has helped serve particular credit needs and niche markets, it has not contributed significantly to GSE performance under the housing goals. Favorable economic and demographic characteristics account more for the GSEs' performance in Washington, D.C., and Columbus than the institutional relationships. This will likely continue to be the case until the affordable housing system and the GSEs' business system grow closer. That is, either or both GSEs will have to collaborate to a greater extent with local affordable housing institutions to develop mortgage products that serve a broader section of the underserved population in these areas.

In Pittsburgh, the local affordable housing system and the GSEs' business system were separate and are likely to remain so. Lenders had established aggressive CRA lending programs and held most loans in portfolio in the late 1980s and early 1990s. Lenders and public-sector agencies have approached the GSEs in fits and starts. Secondary market programs are started and then abandoned or lessened in scale. In addition to institutional bottlenecks, economic and demographic conditions are not conducive to GSE purchases.

The case studies also demonstrate that institutional relationships among the GSEs, banks, local public agencies, and nonprofit organizations are necessary to overcome the considerable information barriers that remain between low- and moderate-income and minority populations and financial institutions. A substantial proportion of this population has not had any interaction with financial institutions. Consequently they do not know how to establish solid credit histories and otherwise prepare themselves for homeownership opportunities. Lending institutions and GSEs, for their part, are learning how to evaluate the creditworthiness of traditionally underserved populations. They are also gaining experience in combining public and private financing for affordable homeownership opportunities in a safe and sound manner. The case studies include a number of notable examples of affordable homeownership programs that overcame information barriers and successfully served large numbers of minority and lower income populations. The case studies also describe a variety of private- and public-sector actors making coordinated and sustained efforts to direct loans and investments to neighborhoods struggling to revitalize themselves after years of disinvestment.

Government-Sponsored Enterprise Performance. Overall, in the four case-study metropolitan areas, as for all metropolitan areas in the country combined (see exhibit 6), the GSEs did not purchase loans to minority and lower income populations in the same proportions that lending institutions made loans to these populations. The gaps varied, being the widest in Pittsburgh and the narrowest in the Washington, D.C., metropolitan area. Not surprisingly, both lenders and the GSEs were able to serve moderate-income populations in a proportion closer to their percentage of the household population than low-income populations. Both lenders and the GSEs, however, consistently failed to reach minorities, particularly Black households, in proportion to their population share (with the GSEs further from the mark than lenders).

Serving Minority and Low- and Moderate-Income Borrowers. The data on lending to targeted borrowers support the institutional hypothesis presented in this article. In the Houston metropolitan area, for example, Fannie Mae was consistently ahead of Freddie Mac in the percentage of purchases of loans made to underserved populations. Fannie Mae and lenders came closer to merging their business relationships with the local affordable housing system in Houston than in the other areas examined. The data also show that GSE performance in Washington, D.C., and, to a lesser extent, Columbus, was better than in Pittsburgh, where the GSEs had the most difficulty establishing institutional relationships in the local affordable housing system.

Serving Low- and Moderate-Income Neighborhoods. The GSEs and lenders came closer to serving, in proportion to their population, creditworthy and likely borrowers in low- and moderate-income neighborhoods for refinance and home improvement loans than for home purchase loans. In three of the four case-study metropolitan areas, both lenders and GSEs were far off the mark in providing home purchase loans in proportion to creditworthy renters in these neighborhoods. For example, in the Washington, D.C., MSA, 24 percent of the creditworthy renters likely to buy homes resided in low- and moderate-income tracts. All lenders, as a group, made only 12 percent of their home purchase loans to residents of low- and moderate-income tracts and only 11 percent of the GSEs' purchases were mortgage loans made to these residents.

The one exception to this trend was Pittsburgh, where lenders offered home purchase loans almost in proportion to creditworthy renters, while the GSEs' purchases were not close to being in proportion. As shown by the case study, aggressive CRA-related mortgage lending to low- and moderate-income census tracts was making significant strides in Pittsburgh. The question is to what extent the GSEs' revision of their own policies as well

as revised affordable housing goals can result in more GSE purchases of safe and sound mortgage loans made in lower income neighborhoods in markets such as Pittsburgh.

Policy Implications

Revised HUD Housing Goals. Regulatory and legislative developments have been partly responsible for lenders serving a higher percentage of minority and low- and moderate-income borrowers than GSEs. CRA and HMDA have empowered community organizations to engage in advocacy and to establish partnerships with lending institutions to increase access to credit for traditionally underserved populations. Also, HUD and the U.S. Department of Justice have stepped up enforcement of the Fair Housing Act, which has encouraged lenders to serve more minorities.[16]

As trend analyses by HUD show, the affordable housing goals contributed to an increase in GSE purchases of mortgages made to underserved populations yet not at levels that are proportional to the number of mortgages made to those populations. The Pittsburgh case study and to a lesser extent the Columbus case study illustrate that lenders cannot indefinitely sustain vigorous CRA lending without more of an outlet to the secondary market. Our case studies used alternative benchmarks based on CRA income definitions as a way to illustrate how the affordable housing goals could be amended.

In particular, it is possible and perhaps desirable for income targets in the affordable housing goals to include targets for serving borrowers with incomes below 80 percent of area median income, although this would require a change to existing legislation. The current low- and moderate-income goal specifies a percentage of GSE purchases that must be loans made to borrowers at or below 100 percent of area median income. This article shows that lenders in the case-study metropolitan areas and in all metropolitan areas combined make a higher percentage of single-family loans to borrowers who earn 80 percent of area median income than the GSEs are purchasing. CRA has been a key in motivating lenders to make loans to borrowers with incomes below 80 percent of area median income. The low- and moderate-income goal could include a subgoal for below 80 percent of area median income to encourage the GSEs to come closer to the lenders' portion of business targeted to this income category. Alternatively, HUD could increase the existing special affordable housing goal to improve the GSEs' targeting of lower income borrowers.

In addition, the GSE affordable housing goals could include targets for reaching individual minority borrowers as well as high-minority areas, since lenders and the GSEs consistently did not serve minorities (particularly Blacks) in proportion to their share of the household population. The CRA regulations could also be amended to require that the lending test of the CRA exam explicitly consider lending to minorities in the same manner as it considers lending to low- and moderate-income borrowers.[17]

Finally, subgoals or reporting requirements in the GSE annual reports to HUD could differentiate among types of loans. Research for this article found that the GSEs and lenders were doing a better job reaching low- and moderate-income neighborhoods with refinance and home improvement lending than with home purchase mortgage lending. If subgoals by type of loan are not adopted, the GSEs should continue reporting purchases by loan type in their annual reports to HUD and explain their progress in purchasing different types of loans. Reporting on progress made in the area of home purchase lending should be emphasized, since this was the type of loan that both lenders and the GSEs had the most difficulty offering in low- and moderate-income neighborhoods in the case-study cities. This would help policymakers and all concerned parties boost home purchase lending and other types of loans that are not reaching underserved borrowers and neighborhoods.

Local Housing Strategies. For the most part, the officials interviewed did not recommend metropolitan housing goals. Metropolitan housing goals would specify, on a metropolitan level, the percentage of mortgages that the GSEs would be required to purchase under goals similar to the current nationwide low- and moderate-income goal, underserved-areas goal, and special affordable-housing goal. We concur with this conclusion, since business decisions made by lenders to sell mortgages to the GSEs do not correspond neatly with individual metropolitan areas. In many instances, lenders' offices located outside of a particular metropolitan area negotiate with the GSEs over the loans that will be sold to the GSEs. Since secondary market decisions are often made on a national or regional level, it would be difficult to tailor the GSE affordable housing goals to a metropolitan level. This does not mean, however, that metropolitan housing strategies would not be useful. Fannie Mae, for example, develops multiyear investment goals for its partnership offices expressed in terms of the dollar amount of affordable housing financed at the local level.

We believe these efforts should be broadened. First, it would be useful for the GSEs to report, in their annual reports, the percentage of loans purchased by the GSEs on a metropolitan level, as is done in appendix A of this article. HUD also could improve the accessibility of information on borrower and loan characteristics at the census tract level. Policymakers, GSEs, lenders, and community organizations could then observe in which areas the GSEs are purchasing a high percentage of loans made to minority and low- and moderate-income borrowers and neighborhoods and in which areas the GSEs could bolster the percentage of mortgages made to these populations.

Second, the HUD Consolidated Planning and Analysis of Impediments processes could include studying lending patterns and GSE purchases at the local level. The Houston case study illustrated how ambitious lending goals may motivate public- and private-sector actors to redouble their efforts to provide homeownership opportunities for working-class and minority borrowers. If goals are based on solid analyses and implementation strategies, they can indeed lead to increases in affordable housing and contribute to the revitalization of neighborhoods.

Local and State agencies receiving HUD funding for community development programs (such as the CDBG and HOME programs) must submit Consolidated Plans to HUD showing how housing strategies and planned program expenditures are based on analyses of housing needs. As part of the Consolidated Plan, communities are required to submit a certification to affirmatively further fair housing through an Analysis of Impediments. Community groups and interested citizens are provided opportunities to review drafts of Consolidated Plans and then make their recommendations regarding the priorities established by local and State agency housing strategies and programs. HUD also has a role in reviewing the Consolidated Plans.

In the development of Consolidated Plans, HUD encourages local jurisdictions to use housing needs data. This information includes the number and percentage of housing units that are in substandard condition, the number and percentage of households that live in overcrowded units, and the number and percentage of households that cannot afford monthly rent and mortgage payments (these are payments that exceed 30 percent of monthly income). The analysis of housing needs data informs choices about housing programs.

We recommend that HUD encourage public agencies to conduct analyses of patterns of lending and GSE purchases as part of the Consolidated Planning and Analysis of Impediments processes.[18] If jurisdictions analyze the data in a manner similar to this article's analysis, public agencies could identify imbalances between the number of minority and

low- and moderate-income households and the portion of loans and GSE purchases serving these households. Jurisdictions could then work with lenders, the GSEs, and nonprofit community organizations to address these imbalances with affordable housing programs and partnerships. The jurisdictions would then be maximizing the extent of private-sector activity in meeting credit needs and hopefully would be minimizing the need for public subsidies. Comprehensive planning as part of the Consolidated Plans may motivate a closer connection between the affordable housing and business systems if it convinces private-sector actors that profitable lending and purchasing opportunities are being missed.

Postscript. Since our interviews with GSE officials and lending institutions in 1998, Fannie Mae and Freddie Mac have embarked on a number of noteworthy initiatives that involve linking their business systems with local affordable housing systems. In November 1999, for example, Fannie Mae and FleetBoston Financial Corporation announced that Fannie Mae would purchase $2.5 billion of mortgages FleetBoston intends to make to low- and moderate-income borrowers in New England over the next 5 years.[19] In a speech in September 1999, Franklin D. Raines, Fannie Mae's Chairman and Chief Executive Officer, stated that Fannie Mae has purchased $3 billion in CRA loans so far, and the GSE pledges to purchase $10 billion by 2002. He added that 25 percent of the loans Fannie Mae purchased in 1998 were made to borrowers with incomes at 80 percent or less of area median income.[20]

Freddie Mac is also publicizing the links it is forming with the affordable housing system in localities across the country. In the summer of 1999, for example, Freddie Mac pledged to purchase $60 million in mortgages for 1,000 low- and moderate-income borrowers in the "Quad" cities of Rock Island and Moline, Illinois, and Davenport and Bettendorf, Iowa. Freddie Mac will be working in partnership with local public agencies, nonprofit organizations, American Bank & Trust, First Midwest Mortgage, and Mercantile Bank.[21]

We hope this article sheds some light on efforts by the GSEs, lenders, public agencies, nonprofit community organizations, and HUD to increase linkages between local affordable housing systems and the GSEs' business systems.

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Notes

1. See "Cuomo Announces Action To Provide $2.4 Trillion in Mortgages for Affordable Housing for 28.1 Million Families," HUD Press Release No. 99–131, July 29, 1999.

2. In addition to the goals detailed in exhibit 3, HUD required that mortgages on affordable multifamily housing account for a fixed portion of GSE purchases in dollar terms.

3. Among its principal shortcomings, HMDA does not include the universe of loans acquired by GSEs, and the data that are reported under HMDA do not provide an entirely accurate portrayal of GSE activity. HMDA does not include information from a portion of the institutions that may have sold loans to the GSEs, especially smaller lenders and lenders based in nonmetropolitan areas that are not required to report for HMDA. Further, some lenders that are required to report for HMDA fail to do so accurately. Also, end-of-year sales to the GSEs will be underrepresented in HMDA because respondents only report a loan sale if the transaction occurs in the same calendar year as the origination or purchase. Moreover, lenders need not report race, national origin, or gender if a loan application is made entirely by telephone. See Scheessele, Randall M., 1998. "HMDA Coverage of the Mortgage Market," U.S. Department of Housing and Urban Development, Office of Policy Development and Research, Housing Finance Working Paper Series No. HF–007.

4. Appendix A presents HMDA-derived GSE performance data (the percent of loans meeting each of the affordable housing goals) for individual metropolitan areas.

5. The primary national objective of the CDBG program is to benefit persons with low and moderate incomes, that is, those with incomes less than or equal to 80 percent of area median income. The HOME program targets families in the same income category; however, the program labels this income category *low income.*

6. FMC obtains FICO scores from three credit bureaus for renters and homeowners in low- and moderate-income census tracts. Developed by the private firm Fair Isaac and Company, FICO scores are based on credit history and indicate the creditworthiness of families and individuals. FMC uses a threshold FICO score of 660 to indicate creditworthiness. Scores of 660 and above are generally considered indicative that the risk of default and delinquency is low and acceptable for offering home loans.

7. The information presented for Washington, D.C., and other case studies does not include Government-insured loans, unless noted otherwise. It is possible that the exclusion of Government-insured mortgages limits the usefulness of household distribution as a benchmark for activity by the GSEs and primary lenders. As shown by aggregate HMDA data, lower income borrowers are most likely to use Government-insured loan products. It could be argued, therefore, that Government-insured loans should be included in determining whether lending activity is “in proportion” to the household income distribution. This analysis, however, excluded Government-insured loans to facilitate the comparison of activity by the GSEs and primary lenders—the GSEs by and large do not purchase this type of loan.

8. In 1996 the average median value of housing in the Washington, D.C., metropolitan area was $177,912 and the HUD-estimated median family income was $68,300. The average conventional loan was $166,468 for all income groups and was $112,055 for moderate-income borrowers in 1996.

9. For the Washington, D.C., case study, the lender-by-lender analysis includes all single-family loans, not only those that conform to GSE limits.

10. If all mortgages originated in conjunction with the HHFC program were sold to Fannie Mae in 1995–96, they would have made up approximately 20 percent of the low- and moderate-income loans purchased by Fannie Mae in the Houston metropolitan area.

11. The HUD-estimated median family income was $46,200 in 1996. The median home value was $74,004 while the average conventional mortgage loan amount was $112,527.

12. Data for the Columbus case study lender-by-lender analysis include all single-family home loans, not only those that conform to GSE limits.

13. This example illustrates the point about equity being built up quicker in markets where house values are appreciating. Suppose the original sales prices of two identical homes were $47,500 in two different markets. Both homebuyers take a 100-percent LTV mortgage without private mortgage insurance or other credit enhancements, so their loans cannot be sold to GSEs. In one market the house appreciates in value to $50,000 in year two, while in the other market the house is still valued at $47,500. Excluding repayment of principal, the homeowner in the appreciating market already has built $2,500 of equity, or 5 percent of the home’s value. The borrower in the stagnant market still has not accumulated any equity. If this pattern continues over several years, the loan on the home in the appreciating market will soon be eligible for sale to the GSEs because the owner has accumulated equity that equals 20 percent of the home’s new value. Appreciation alone, therefore, can help get loans to the GSEs faster.

14. The median value of homes is about $57,400. The average conventional mortgage made in 1996 was for $84,410; moderate income home purchasers borrowed $42,205, on average.

15. In the Pittsburgh case study, the lender-by-lender analysis includes all single-family loans, not only those that conform to GSE limits.

16. The U.S. Department of Justice, for example, settled a number of suits with lenders over violations of the Fair Housing Act and the Equal Credit Opportunity Act in the early and mid-1990s.

17. CRA exams for large banks (those with assets of $250 million or more) consist of a lending test, an investment test, and a service test. The lending test for a bank measures the number and percentages of loans issued to low- and moderate-income borrowers and neighborhoods (as defined in the CRA regulations as income below 80 percent of area median income). The CRA statute and regulations do not require examiners to measure lending to minorities in the same manner. Small banks (those with assets of less than $250 million) have a lending test similar to large banks but not an investment or service test.

18. For more information on the Analysis of Impediments process, see *Fair Housing Planning Guide,* Vols. I & II. 1996. Washington, DC: U.S. Department of Housing and Urban Development.

19. See "FleetBoston, Fannie in $2.5 Billion Housing Plan," by Joshua Brockman in the *American Banker,* November 22, 1999.

20. See "Fannie Mae and the CRA," by Franklin D. Raines, reprinted in *Banking and Community Perspectives,* Fourth Quarter 1999, Federal Reserve Bank of Dallas.

21. Freddie Mac press release, June 1999.

Appendix A

Exhibit A–1

Percentage of GSE Single-Family Loan Purchases Qualifying for the Affordable Housing Goals at the Metropolitan Level, 1996

Metropolitan Statistical Area	Low- and Moderate-Income Housing Goal (%)		Underserved Areas Goal (%)		Special Affordable Housing Goal (%)	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Abilene, TX (MSA)	25.4	21.9	14.3	14.8	12.3	6.3
Akron, OH (PMSA)	40.7	39.3	22.3	20.8	14.1	12.2
Albany, GA (MSA)	18.8	18.2	24.3	25.2	6.2	6.4
Albany-Schenectady-Troy, NY (MSA)	32.0	31.1	13.1	10.8	7.9	7.8
Albuquerque, NM (MSA)	38.6	34.4	41.8	40.8	12.6	10.2
Alexandria, LA (MSA)	19.8	19.6	10.5	16.7	3.9	4.3
Allentown-Bethlehem-Easton, PA (MSA)	32.1	33.3	16.6	16.6	8.1	8.2
Altoona, PA (MSA)	19.1	29.5	19.6	19.8	1.5	6.5
Amarillo, TX (MSA)	21.8	18.2	12.1	10.1	6.1	3.2
Anchorage, AK (MSA)	42.7	38.7	21.0	17.4	14.0	14.2
Ann Arbor, MI (PMSA)	44.5	40.6	22.3	16.1	14.6	11.0
Anniston, AL (MSA)	24.2	19.9	7.9	4.5	5.9	2.9
Appleton-Oshkosh-Neenah, WI (MSA)	40.7	37.7	17.3	13.8	7.8	7.1
Asheville, NC (MSA)	38.3	33.1	14.1	12.0	11.1	8.3

Exhibit A-1 (continued)

Percentage of GSE Single-Family Loan Purchases Qualifying for the Affordable Housing Goals at the Metropolitan Level, 1996

Metropolitan Statistical Area	Low- and Moderate-Income Housing Goal (%)		Underserved Areas Goal (%)		Special Affordable Housing Goal (%)	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Athens, GA, (MSA)	32.5	27.8	30.3	22.4	13.3	9.0
Atlanta, GA (MSA)	44.6	42.8	19.3	19.1	12.9	13.0
Atlantic-Cape May, NJ (PMSA)	34.2	34.1	23.7	16.5	8.1	7.1
Augusta-Aiken, GA-SC (MSA)	33.3	31.4	22.7	20.3	9.2	7.1
Austin-San Marcos, TX (MSA)	25.6	22.6	15.2	14.4	6.7	5.9
Bakersfield, CA (MSA)	26.4	25.4	20.7	16.2	11.1	9.1
Baltimore, MD (PMSA)	39.5	37.5	15.7	15.2	11.8	10.6
Bangor, ME (MSA)	27.2	31.7	15.9	10.9	5.9	6.2
Barnstable-Yarmouth, MA (MSA)	34.8	32.1	24.7	21.8	10.9	7.0
Baton Rouge, LA (MSA)	25.6	22.8	19.7	18.7	7.0	5.0
Beaumont-Port Arthur, TX (MSA)	25.3	19.4	16.6	16.6	8.7	3.8
Bellingham, WA (MSA)	34.3	38.4	18.4	20.5	8.3	10.9
Benton Harbor, MI (MSA)	42.3	40.2	13.2	8.5	13.9	9.4
Bergen-Passaic, NJ (PMSA)	42.6	44.2	26.6	23.8	10.0	9.3
Billings, MT (MSA)	38.3	34.4	17.1	16.2	10.4	10.2
Biloxi-Gulfport-Pascagoula, MS (MSA)	22.8	19.8	21.6	26.3	5.3	5.4
Binghamton, NY (MSA)	28.3	31.6	13.2	16.5	7.4	9.1
Birmingham, AL (MSA)	26.4	26.5	14.0	14.0	5.3	5.8
Bismarck, ND (MSA)	28.9	28.7	10.6	14.8	8.6	5.1
Bloomington, IN (MSA)	29.3	35.6	17.2	14.1	10.0	10.2
Bloomington-Normal, IL (MSA)	45.6	42.3	31.2	25.9	14.1	10.6
Boise City, ID (MSA)	42.9	41.9	22.3	20.7	10.7	12.9
Boston, MA-NH (PMSA)	40.6	37.9	23.1	20.8	10.6	9.4
Boulder-Longmont, CO (PMSA)	47.6	46.6	20.0	21.8	14.6	16.2
Brazoria, TX (PMSA)	25.5	25.0	10.8	12.2	7.1	3.6
Bremerton, WA (PMSA)	35.8	36.1	12.9	10.3	7.6	7.5
Bridgeport, CT (PMSA)	42.5	40.7	9.1	9.6	10.6	9.5
Brockton, MA (PMSA)	46.1	41.1	9.5	6.8	11.9	10.7
Brownsville-Harlingen-San Benito, TX (MSA)	11.1	5.1	46.8	39.1	1.7	0.9
Bryan-College Station, TX (MSA)	26.6	17.3	17.1	23.8	6.8	4.4

Exhibit A-1 (continued)

Percentage of GSE Single-Family Loan Purchases Qualifying for the Affordable Housing Goals at the Metropolitan Level, 1996

	Low- and Moderate-Income Housing Goal (%)		Underserved Areas Goal (%)		Special Affordable Housing Goal (%)	
Metropolitan Statistical Area	**Fannie Mae**	**Freddie Mac**	**Fannie Mae**	**Freddie Mac**	**Fannie Mae**	**Freddie Mac**
Buffalo-Niagara Falls, NY (MSA)	29.1	27.6	10.6	9.7	6.0	6.2
Burlington, VT (MSA)	38.5	36.2	18.1	15.1	10.1	8.5
Canton-Massillon, OH (MSA)	47.1	44.7	15.5	12.1	13.8	11.8
Casper, WY (MSA)	40.1	43.5	18.5	16.0	13.2	13.7
Cedar Rapids, IA (MSA)	50.3	45.4	18.4	15.0	14.6	11.2
Champaign-Urbana, IL (MSA)	45.2	38.6	14.6	15.2	17.0	12.9
Charleston, WV (MSA)	22.2	21.6	22.0	16.7	5.2	5.0
Charleston-North Charleston, SC (MSA)	27.6	28.4	21.6	20.8	7.1	7.1
Charlotte-Gastonia-Rock Hill, NC-SC (MSA)	33.8	35.9	18.7	19.3	8.6	9.2
Charlottesville, VA (MSA)	41.9	39.1	16.6	21.7	15.1	14.4
Chattanooga, TN-GA (MSA)	25.7	25.0	14.2	13.2	4.7	4.9
Cheyenne, WY (MSA)	41.8	35.4	18.3	15.5	13.8	12.6
Chicago, IL (PMSA)	44.9	42.7	19.3	19.2	12.7	12.3
Chico-Paradise, CA (MSA)	24.6	23.7	22.9	24.7	5.3	5.6
Cincinnati, OH-KY-IN (PMSA)	43.1	39.6	20.3	17.9	14.0	12.8
Clarksville-Hopkinsville, TN-KY (MSA)	17.6	25.0	12.6	12.7	4.0	6.7
Cleveland-Lorain-Elyria, OH (PMSA)	42.8	40.1	19.6	18.1	11.9	10.5
Colorado Springs, CO (MSA)	37.9	33.3	22.5	21.2	11.2	9.2
Columbia, MO (MSA)	39.9	37.8	18.6	14.3	9.8	12.1
Columbia, SC (MSA)	32.1	30.0	20.2	20.3	7.0	7.0
Columbus, GA-AL (MSA)	28.1	24.3	22.7	18.9	11.4	6.2
Columbus, OH (MSA)	37.4	38.0	16.2	18.4	10.9	10.4
Corpus Christi, TX (MSA)	13.6	13.6	22.3	25.1	2.8	2.2
Cumberland, MD-WV (MSA)	16.7	19.4	10.1	10.8	4.0	3.7
Dallas, TX (PMSA)	30.0	24.4	16.1	13.1	9.8	7.1
Danbury, CT (PMSA)	60.6	54.7	20.9	17.0	18.7	16.5
Danville, VA (MSA)	26.8	24.3	23.1	14.7	8.5	4.7
Davenport-Moline-Rock Island, IA-IL (MSA)	39.5	37.8	20.3	20.7	13.7	11.4

Exhibit A-1 (continued)

Percentage of GSE Single-Family Loan Purchases Qualifying for the Affordable Housing Goals at the Metropolitan Level, 1996

	Low- and Moderate-Income Housing Goal (%)		Underserved Areas Goal (%)		Special Affordable Housing Goal (%)	
Metropolitan Statistical Area	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Dayton-Springfield, OH (MSA)	40.9	40.1	19.2	19.3	12.3	13.1
Daytona Beach, FL (MSA)	41.8	39.6	11.8	11.7	12.7	12.1
Decatur, AL (MSA)	33.3	26.6	10.1	8.9	11.2	4.9
Decatur, IL (MSA)	40.7	42.2	22.3	24.1	11.0	16.5
Denver, CO (PMSA)	45.4	46.5	20.4	19.6	15.1	15.8
Des Moines, IA (MSA)	43.9	44.3	16.1	13.2	12.7	12.3
Detroit, MI (PMSA)	41.0	41.2	15.2	14.4	12.0	12.0
Dothan, AL (MSA)	22.8	25.8	13.3	19.9	4.6	6.5
Dover, DE (MSA)	35.5	33.8	20.3	17.7	10.0	10.6
Dubuque, IA (MSA)	52.8	44.4	17.5	12.1	15.1	10.6
Duluth-Superior, MN-WI (MSA)	41.4	36.7	14.6	14.6	13.1	9.9
Dutchess County, NY (PMSA)	45.3	36.8	19.5	18.7	11.4	6.4
Eau Claire, WI (MSA)	34.7	33.0	16.9	20.5	10.7	5.9
El Paso, TX (MSA)	19.4	13.8	46.2	40.0	5.5	4.2
Elkhart-Goshen, IN (MSA)	47.4	50.8	10.2	7.5	12.8	12.9
Elmira, NY (MSA)	21.8	28.6	17.2	10.2	1.8	7.5
Enid, OK (MSA)	14.9	18.6	20.6	12.6	1.5	4.9
Erie, PA (MSA)	30.3	31.8	13.0	14.5	6.6	3.6
Eugene-Springfield, OR (MSA)	29.9	27.5	25.0	32.1	6.9	7.0
Evansville-Henderson, IN-KY (MSA)	36.3	42.7	15.1	18.5	11.0	20.1
Fargo-Moorhead, ND-MN (MSA)	24.1	27.4	18.4	15.1	7.3	5.3
Fayetteville, NC (MSA)	22.2	24.2	46.3	48.7	4.8	5.1
Fayetteville-Springdale-Rogers, AR (MSA)	27.0	24.7	14.8	15.3	5.2	4.9
Fitchburg-Leominster, MA (PMSA)	40.3	37.5	10.1	8.1	8.0	6.3
Flagstaff, AZ-UT (MSA)	26.9	24.4	24.3	17.9	8.2	5.0
Flint, MI (PMSA)	38.2	33.4	10.1	7.8	10.7	8.6
Florence, AL (MSA)	23.7	25.9	13.6	15.8	3.8	5.1
Florence, SC (MSA)	29.0	24.5	31.6	20.8	8.2	4.3
Fort Collins-Loveland, CO (MSA)	42.8	40.7	26.9	25.4	12.8	11.5

Exhibit A-1 (continued)

Percentage of GSE Single-Family Loan Purchases Qualifying for the Affordable Housing Goals at the Metropolitan Level, 1996

Metropolitan Statistical Area	Low- and Moderate-Income Housing Goal (%)		Underserved Areas Goal (%)		Special Affordable Housing Goal (%)	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Fort Lauderdale, FL (PMSA)	41.1	37.9	19.8	18.8	13.0	11.7
Fort Myers-Cape Coral, FL (MSA)	42.5	37.1	16.8	17.3	12.4	10.9
Fort Pierce-Port St. Lucie, FL (MSA)	46.1	44.3	10.4	7.5	17.1	15.2
Fort Smith, AR-OK (MSA)	21.5	19.0	16.3	18.8	5.2	4.8
Fort Walton Beach, FL (MSA)	35.8	27.4	21.9	24.3	9.8	6.6
Fort Wayne, IN (MSA)	43.3	42.0	11.7	15.5	15.3	14.1
Fort Worth-Arlington, TX (PMSA)	30.2	25.7	16.9	16.5	9.6	8.7
Fresno, CA (MSA)	25.4	25.9	37.2	36.2	8.4	7.6
Gadsen, AL (MSA)	31.0	17.7	22.2	9.9	8.6	2.6
Gainesville, FL (MSA)	27.1	26.7	15.4	12.5	7.2	6.8
Galveston-Texas City, TX (PMSA)	24.7	19.4	19.7	16.3	8.4	3.8
Gary, IN (PMSA)	37.1	35.4	11.8	8.4	10.5	8.8
Glens Falls, NY (MSA)	31.8	30.9	28.3	21.6	3.8	5.5
Goldsboro, NC (MSA)	23.9	29.6	24.0	27.5	8.2	5.2
Grand Forks, ND-MN (MSA)	22.2	28.3	16.2	11.1	4.8	9.6
Grand Junction, CO (MSA)	38.4	39.8	29.6	30.2	9.1	11.4
Grand Rapids-Muskegon-Holland, MI (MSA)	42.8	42.0	18.0	15.2	12.7	10.6
Great Falls, MT (MSA)	30.1	31.6	15.0	13.6	6.5	7.4
Greeley, CO (PMSA)	33.7	33.7	20.8	22.1	7.7	9.5
Green Bay, WI (MSA)	39.9	37.5	19.1	17.2	11.2	9.9
Greensboro—Winston-Salem—High Point, NC (MSA)	35.0	35.0	14.8	17.7	9.3	9.8
Greenville, NC (MSA)	25.6	29.0	16.3	25.4	5.7	8.2
Greenville-Spartanburg-Anderson, SC (MSA)	36.2	33.7	17.4	15.5	10.2	7.5
Hagerstown, MD (PMSA)	31.1	32.7	13.0	11.2	8.9	9.6
Hamilton-Middletown, OH (PMSA)	39.1	35.9	19.4	16.8	13.4	11.8

Exhibit A-1 (continued)

Percentage of GSE Single-Family Loan Purchases Qualifying for the Affordable Housing Goals at the Metropolitan Level, 1996

	Low- and Moderate-Income Housing Goal (%)		Underserved Areas Goal (%)		Special Affordable Housing Goal (%)	
Metropolitan Statistical Area	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Harrisburg-Lebanon-Carlisle, PA (MSA)	37.4	38.6	17.6	19.4	9.9	9.3
Hartford, CT (MSA)	41.3	40.4	11.5	12.9	10.5	10.0
Hattiesburg, MS (MSA)	16.4	14.8	12.8	19.9	3.5	0.8
Hickory-Morganton, NC (MSA)	44.3	37.1	15.8	10.1	14.7	9.8
Honolulu, HI (MSA)	57.7	54.0	68.7	63.8	14.9	15.5
Houma, LA (MSA)	18.3	15.2	26.5	23.0	5.4	1.5
Houston, TX (PMSA)	35.4	26.1	29.0	23.2	12.7	7.1
Huntington-Ashland, WV-KY-OH (MSA)	20.7	20.6	18.5	18.0	7.5	4.4
Huntsville, AL (MSA)	37.2	34.8	28.3	32.5	11.2	12.1
Indianapolis, IN (MSA)	39.4	37.1	17.5	14.3	12.0	10.4
Iowa City, IA (MSA)	45.2	40.9	23.1	19.1	10.4	6.3
Jackson, MI (MSA)	35.8	35.7	11.3	9.5	9.9	10.1
Jackson, MS (MSA)	20.1	15.6	20.8	23.7	4.1	3.1
Jackson, TN (MSA)	15.1	18.8	14.3	11.5	1.5	2.7
Jacksonville, FL (MSA)	39.1	34.3	14.2	14.5	11.6	9.0
Jacksonville, NC (MSA)	17.5	22.4	21.8	19.4	2.9	3.2
Jamestown, NY (MSA)	28.1	31.5	9.0	9.8	10.3	9.0
Janesville-Beloit, WI (MSA)	41.8	37.2	23.2	23.1	8.6	7.4
Jersey City, NJ (PMSA)	17.2	22.4	57.3	59.4	2.6	5.0
Johnson City-Kingsport-Bristol, TN-VA (MSA)	28.6	23.6	17.3	20.8	8.4	6.4
Johnstown, PA (MSA)	13.0	28.7	11.7	7.7	2.7	6.9
Joplin, MO (MSA)	41.8	32.0	13.8	16.0	13.1	9.9
Kalamazoo-Battle Creek, MI (MSA)	35.4	34.3	22.1	20.7	10.3	9.1
Kankakee, IL (PMSA)	37.1	31.3	8.6	7.1	9.9	9.4
Kansas City, MO-KS (MSA)	39.7	37.9	14.6	14.1	12.9	10.9
Kenosha, WI (PMSA)	34.4	31.5	12.7	11.3	7.0	6.1
Killeen-Temple, TX (MSA)	13.9	17.7	17.1	21.4	3.1	3.6
Knoxville, TN (MSA)	27.6	26.2	17.3	16.8	7.4	6.3
Kokomo, IN (MSA)	39.2	42.2	20.3	21.0	12.0	15.9
La Crosse, WI-MN (MSA)	37.1	29.9	13.7	10.9	8.1	6.5
Lafayette, IN (MSA)	37.0	37.6	4.8	5.8	10.8	13.9
Lafayette, LA (MSA)	24.2	21.0	13.7	9.5	5.2	4.3

Exhibit A-1 (continued)

Percentage of GSE Single-Family Loan Purchases Qualifying for the Affordable Housing Goals at the Metropolitan Level, 1996

Metropolitan Statistical Area	Low- and Moderate-Income Housing Goal (%)		Underserved Areas Goal (%)		Special Affordable Housing Goal (%)	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Lake Charles, LA (MSA)	21.0	17.3	15.8	11.9	5.7	2.7
Lakeland-Winter Haven, FL (MSA)	33.7	33.2	13.1	12.2	9.1	7.7
Lancaster, PA (MSA)	40.6	37.7	6.3	7.5	7.8	7.7
Lansing-East Lansing, MI (MSA)	40.2	38.7	17.2	16.9	7.9	9.4
Laredo, TX (MSA)	8.3	3.8	45.0	40.4	1.1	0.0
Las Cruces, NM (MSA)	18.8	17.8	66.3	62.0	3.6	7.5
Las Vegas, NV-AZ (MSA)	41.1	40.8	7.6	6.0	13.2	14.4
Lawrence, KS (MSA)	37.5	29.0	27.8	25.9	10.7	6.9
Lawrence, MA-NH (PMSA)	37.1	34.4	12.2	10.4	9.1	8.0
Lawton, OK (MSA)	15.6	19.4	28.8	29.5	3.6	5.6
Lewiston-Auburn, ME (MSA)	29.1	31.5	6.1	9.3	5.3	6.1
Lexington, KY (MSA)	27.9	31.6	25.5	26.0	9.2	13.8
Lima, OH (MSA)	43.7	40.8	10.9	7.5	13.0	11.2
Lincoln, NE (MSA)	40.1	42.1	15.3	17.6	10.0	11.3
Little Rock-North Little Rock, AR (MSA)	20.0	22.0	11.2	9.9	4.4	5.6
Longview-Marshall, TX (MSA)	16.7	18.7	15.8	14.8	4.1	5.0
Los Angeles-Long Beach, CA, (PMSA)	32.1	29.6	44.3	41.6	9.4	9.0
Louisville, KY-IN (MSA)	31.5	30.1	14.6	13.6	8.3	8.1
Lowell, MA-NH (PMSA)	42.2	41.8	9.8	6.9	11.1	10.1
Lubbock, TX (MSA)	20.2	24.2	11.0	13.0	5.5	5.3
Lynchburg, VA (MSA)	35.0	31.1	8.3	5.2	10.4	7.3
Macon, GA (MSA)	33.8	32.0	11.9	12.8	8.3	9.4
Madison, WI (MSA)	44.5	43.5	25.5	22.1	12.0	11.5
Manchester, NH (PMSA)	32.7	29.7	11.2	8.0	7.8	6.2
Mansfield, OH (MSA)	39.6	41.2	23.7	20.9	9.5	15.9
McAllen-Edinburg-Mission, TX (MSA)	7.4	5.2	35.8	36.7	2.1	1.6
Medford-Ashland, OR (MSA)	30.4	27.9	31.3	29.6	6.4	6.1
Melbourne-Titusville-Palm Bay, FL (MSA)	47.3	44.9	18.0	22.9	18.8	18.8
Memphis, TN-AR-MS (MSA)	19.1	21.6	11.5	10.8	4.1	5.7

Exhibit A-1 (continued)

Percentage of GSE Single-Family Loan Purchases Qualifying for the Affordable Housing Goals at the Metropolitan Level, 1996

Metropolitan Statistical Area	Low- and Moderate-Income Housing Goal (%)		Underserved Areas Goal (%)		Special Affordable Housing Goal (%)	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Merced, CA (MSA)	30.7	27.0	66.1	63.1	9.5	9.9
Miami, FL (PMSA)	33.3	27.6	41.5	41.3	6.8	6.4
Middlesex-Somerset-Hunterdon, NJ (PMSA)	50.9	54.1	19.6	19.3	13.8	14.6
Milwaukee-Waukesha, WI (PMSA)	39.0	34.1	14.7	10.6	8.6	7.7
Minneapolis-St. Paul, MN-WI (MSA)	48.1	46.8	18.4	17.3	15.2	13.9
Mobile, AL (MSA)	24.7	22.4	12.2	10.2	5.4	5.2
Modesto, CA (MSA)	39.3	36.6	31.1	31.9	13.6	11.3
Monmouth-Ocean, NJ (PMSA)	40.5	40.2	27.5	26.0	11.8	11.9
Monroe, LA (MSA)	11.0	14.9	8.6	8.1	4.0	1.1
Montgomery, AL (MSA)	28.9	27.7	23.1	23.2	6.7	6.8
Muncie, IN (MSA)	52.0	40.3	33.3	18.8	21.1	15.5
Myrtle Beach, SC (MSA)	34.2	36.4	18.4	25.3	10.2	8.1
Naples, FL (MSA)	48.0	46.4	14.9	14.8	15.5	14.6
Nashua, NH (PMSA)	40.4	42.1	16.1	17.1	9.8	11.8
Nashville, TN (MSA)	29.9	28.4	12.8	12.5	7.3	6.4
Nassau-Suffolk, NY (PMSA)	47.3	46.4	28.0	26.8	9.9	8.3
New Bedford, MA (PMSA)	31.0	25.2	13.2	10.6	7.9	7.6
New Haven-Meriden, CT (PMSA)	37.4	36.3	12.7	12.2	9.5	9.0
New London-Norwich, CT-RI (MSA)	40.0	33.4	14.4	11.1	12.3	7.4
New Orleans, LA (MSA)	24.3	22.8	20.6	21.0	7.5	7.0
New York, NY (PMSA)	21.2	16.2	28.6	21.5	3.7	2.6
Newark, NJ (PMSA)	39.2	39.5	16.7	14.5	9.4	8.9
Newburgh, NY-PA (PMSA)	38.8	34.7	11.4	8.9	10.8	9.3
Norfolk-Virginia Beach-Newport News, VA-NC (MSA)	29.0	28.3	18.5	18.8	8.4	7.9
Oakland, CA, (PMSA)	42.4	39.8	39.4	37.9	13.1	11.9
Ocala, FL (MSA)	40.7	32.3	15.5	19.2	10.8	10.5
Odessa-Midland, TX (MSA)	13.1	13.4	6.8	5.3	3.3	3.9
Oklahoma City, OK (MSA)	27.4	27.2	13.4	13.3	6.9	6.7

Exhibit A-1 (continued)

Percentage of GSE Single-Family Loan Purchases Qualifying for the Affordable Housing Goals at the Metropolitan Level, 1996

Metropolitan Statistical Area	Low- and Moderate-Income Housing Goal (%)		Underserved Areas Goal (%)		Special Affordable Housing Goal (%)	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Olympia, WA (PMSA)	41.7	39.9	31.6	36.1	7.6	8.3
Omaha, NE-IA	32.0	40.3	12.0	16.8	10.0	13.9
Orange County, CA (PMS)	44.4	39.6	29.1	29.7	12.4	10.6
Orlando, FL (MSA)	36.1	32.8	24.0	22.2	12.3	10.4
Owensboro, KY (MSA)	26.0	25.4	15.0	10.0	8.5	4.4
Panama City, FL (MSA)	22.3	26.2	12.9	10.0	5.8	7.5
Parkersburg-Marietta, WV-OH (MSA)	32.5	29.1	21.4	24.5	9.8	8.1
Pensacola, FL (MSA)	30.2	30.2	18.4	17.9	9.8	7.7
Peoria-Pekin, IL (MSA)	48.9	39.0	21.9	13.4	17.8	12.0
Philadelphia, PA-NJ (PMSA)	36.6	34.2	16.2	13.0	9.5	8.1
Phoenix-Mesa, AZ (MSA)	36.2	35.7	17.9	17.4	12.0	11.7
Pine Bluff, AR (MSA)	7.9	19.2	14.0	4.8	0.7	7.7
Pittsburgh, PA (MSA)	25.0	25.4	13.1	12.1	4.8	4.6
Pittsfield, MA (MSA)	37.2	33.3	9.0	10.3	14.6	13.1
Portland, ME (MSA)	34.6	35.8	14.1	13.2	8.7	7.1
Portland-Vancouver, OR-WA (PMSA)	34.1	34.8	24.7	25.0	9.1	9.1
Portsmouth-Rochester, NH-ME (PMSA)	30.9	30.3	6.7	8.8	7.4	7.3
Providence-Fall River-Warwick, RI-MA (MSA)	35.0	34.3	12.7	13.1	8.3	8.0
Provo-Orem, UT (MSA)	35.9	37.1	13.5	13.9	5.4	6.6
Pueblo, CO (MSA)	31.6	25.8	28.6	25.2	8.2	6.6
Punta Gorda, FL (MSA)	48.0	43.5	12.3	19.6	12.7	12.0
Racine, WI (PMSA)	41.9	35.1	13.8	15.7	10.2	7.6
Raleigh-Durham-Chapel Hill, NC (MSA)	35.7	36.7	21.8	21.9	10.1	9.8
Rapid City, SD (MSA)	22.3	27.7	14.0	18.1	10.1	9.6
Reading, PA (MSA)	39.0	37.0	10.3	7.4	10.0	8.4
Redding, CA (MSA)	28.4	28.5	13.5	16.5	9.5	7.7
Reno, NV (MSA)	43.5	44.4	19.0	18.1	15.4	17.1
Richland-Kennewick-Pasco, WA (MSA)	32.6	27.4	26.5	25.1	11.1	11.4
Richmond-Petersburg, VA (MSA)	38.1	34.9	12.0	9.9	13.4	11.0
Riverside-San Bernardino, CA (PMSA)	31.8	34.0	34.7	34.0	10.6	10.4

Exhibit A-1 (continued)

Percentage of GSE Single-Family Loan Purchases Qualifying for the Affordable Housing Goals at the Metropolitan Level, 1996

	Low- and Moderate-Income Housing Goal (%)		Underserved Areas Goal (%)		Special Affordable Housing Goal (%)	
Metropolitan Statistical Area	**Fannie Mae**	**Freddie Mac**	**Fannie Mae**	**Freddie Mac**	**Fannie Mae**	**Freddie Mac**
Roanoke, VA (MSA)	44.0	38.1	16.9	14.0	17.9	14.3
Rochester, MN (MSA)	59.3	52.4	23.7	22.8	23.5	15.9
Rochester, NY (MSA)	35.8	32.5	12.5	11.2	8.8	7.0
Rockford, IL (MSA)	42.3	37.6	14.2	13.6	12.5	12.0
Rocky Mount, NC (MSA)	31.7	25.6	39.8	36.8	8.5	7.5
Sacramento, CA (PMSA)	34.7	34.3	23.0	22.2	10.3	10.7
Saginaw-Bay City-Midland, MI (MSA)	46.5	39.2	26.0	19.0	16.6	11.8
St. Cloud, MN (MSA)	42.3	42.0	19.8	16.3	7.4	9.2
St. Joseph, MO (MSA)	30.6	35.2	14.0	11.1	11.3	9.2
St. Louis, MO-IL (MSA)	40.5	38.7	17.0	16.1	13.5	12.9
Salem, OR (PMSA)	29.8	29.9	11.7	11.7	5.2	5.0
Salinas, CA (MSA)	31.0	28.1	60.0	54.0	8.4	4.9
Salt Lake City-Ogden, UT (MSA)	44.8	44.6	21.7	21.1	13.0	13.3
San Angelo, TX (MSA)	24.1	22.7	21.9	16.8	3.6	0.8
San Antonio, TX (MSA)	17.2	17.7	17.2	16.5	3.9	4.2
San Diego, CA (MSA)	29.1	26.5	25.4	23.8	8.1	6.7
San Francisco, CA (PMSA)	48.3	47.8	50.7	47.5	13.4	14.3
San Jose, CA (PMSA)	52.9	50.7	59.8	57.7	15.0	14.2
San Luis Obispo-Atascadero-Paso Robles, CA (MSA)	31.0	28.8	19.0	22.2	6.0	6.3
Santa Barbara-Santa Maria-Lompoc, CA (MSA)	31.0	34.5	24.2	22.4	9.3	10.7
Santa Cruz-Watsonville, CA (PMSA)	34.1	37.9	40.0	37.2	7.8	9.4
Santa FE, NM (MSA)	42.5	49.2	76.9	75.8	19.6	17.1
Santa Rosa, CA (PMSA)	33.9	35.6	15.4	13.6	6.9	7.2
Sarasota-Bradenton, FL (MSA)	46.7	41.7	14.4	13.3	13.5	11.2
Savannah, GA (MSA)	27.9	29.7	18.2	16.3	8.8	7.4
Scranton—Wilkes-Barre—Hazleton, PA (MSA)	31.1	28.3	16.1	16.6	7.8	5.2
Seattle-Bellevue-Everett, WA (PMSA)	42.4	42.0	26.2	25.7	10.9	12.0
Sharon, PA (MSA)	21.1	26.7	8.7	10.9	3.2	4.7
Sheboygan, WI (MSA)	40.1	35.0	14.3	14.5	7.4	7.2
Sherman-Denison, TX (MSA)	20.1	24.8	13.0	16.2	9.1	6.3

Exhibit A-1 (continued)

Percentage of GSE Single-Family Loan Purchases Qualifying for the Affordable Housing Goals at the Metropolitan Level, 1996

Metropolitan Statistical Area	Low- and Moderate-Income Housing Goal (%)		Underserved Areas Goal (%)		Special Affordable Housing Goal (%)	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Shreveport-Bossier City, LA (MSA)	16.9	13.7	9.6	6.5	3.5	2.3
Sioux City, IA-NE (MSA)	39.9	39.4	24.1	27.2	14.9	11.4
Sioux Falls, SD (MSA)	40.6	34.9	18.0	19.5	12.5	8.1
South Bend, IN (MSA)	43.0	41.3	28.1	16.6	17.8	12.8
Spokane, WA (MSA)	34.5	34.5	23.5	22.3	11.1	11.7
Springfield, IL (MSA)	41.1	40.8	20.8	17.8	14.3	12.3
Springfield, MA (MSA)	37.0	31.6	13.9	10.5	9.2	7.3
Springfield, MO (MSA)	41.9	35.8	14.1	12.5	16.0	11.2
Stamford-Norwalk, CT (PMSA)	65.2	62.8	50.0	49.1	28.0	28.2
State College, PA (MSA)	25.9	26.1	34.7	39.4	3.1	3.9
Steubenville-Weirton, OH-WV (MSA)	31.9	29.3	17.1	18.2	7.4	8.8
Stockton-Lodi, CA (MSA)	33.9	33.8	34.5	31.2	13.5	12.1
Sumter, SC (MSA)	21.8	21.8	19.5	23.5	2.0	8.0
Syracuse, NY (MSA)	26.3	26.7	11.3	17.1	5.1	5.8
Tacoma, WA (PMSA)	35.1	33.5	19.1	17.5	7.5	8.3
Tallahassee, FL (MSA)	33.9	33.0	26.6	28.3	10.4	10.1
Tampa-St. Petersburg-Clearwater, FL (MSA)	40.0	35.2	21.2	19.4	13.6	11.6
Terre Haute, IN (MSA)	28.4	32.0	16.7	13.0	13.6	9.0
Texarkana, TX-Texarkana, AR (MSA)	24.4	14.9	20.0	19.8	5.7	4.1
Toledo, OH (MSA)	39.1	35.2	15.6	10.4	11.8	9.4
Topeka, KS (MSA)	45.7	38.8	13.2	7.9	17.1	12.5
Trenton, NJ (PMSA)	38.6	41.7	16.4	14.1	11.0	10.3
Tucson, AZ (MSA)	32.7	31.6	19.2	18.0	10.0	9.5
Tulsa, OK (MSA)	25.6	25.3	11.6	13.4	6.6	6.7
Tuscaloosa, AL (MSA)	22.6	20.4	19.7	17.2	4.9	2.6
Tyler, TX (MSA)	24.1	23.0	11.1	10.9	2.5	5.1
Utica-Rome, NY (MSA)	30.3	22.3	17.8	12.1	4.1	4.0
Vallejo-Fairfield-Napa, CA (PMSA)	34.2	32.3	37.7	37.2	8.6	7.6
Ventura, CA (PMSA)	44.0	42.6	32.9	31.6	12.8	12.2
Victoria, TX (MSA)	17.0	14.1	40.3	34.4	7.5	3.8
Vineland-Millville-Bridgeton, NJ (PMSA)	33.3	30.8	24.3	24.0	8.3	4.2
Visalia-Tulare-Porterville, CA (MSA)	29.9	28.3	48.8	49.6	11.9	11.2

Exhibit A-1 (continued)

Percentage of GSE Single-Family Loan Purchases Qualifying for the Affordable Housing Goals at the Metropolitan Level, 1996

Metropolitan Statistical Area	Low- and Moderate-Income Housing Goal (%)		Underserved Areas Goal (%)		Special Affordable Housing Goal (%)	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Waco, TX (MSA)	25.8	14.6	15.6	10.1	8.5	3.1
Washington, DC-MD-VA-WV (PMSA)	55.1	54.1	32.8	33.1	17.9	18.0
Waterbury, CT (PMSA)	48.0	41.1	11.0	4.5	11.1	9.9
Waterloo-Cedar Falls, IA (MSA)	43.5	36.7	27.3	17.5	16.3	9.7
Wausau, WI (MSA)	38.3	41.0	13.5	10.4	6.0	12.0
West Palm Beach-Boca Raton, FL (MSA)	44.5	39.4	20.7	17.3	15.0	11.9
Wheeling, WV-OH (MSA)	26.9	17.2	20.7	14.7	5.4	3.4
Wichita, KS (MSA)	41.2	37.1	17.0	12.7	9.8	9.8
Wichita Falls, TX (MSA)	20.3	17.1	15.5	8.6	2.7	4.5
Williamsport, PA (MSA)	29.7	23.4	17.4	15.6	3.1	3.6
Wilmington, NC (MSA)	34.6	31.6	17.3	15.4	8.9	7.6
Wilmington-Newark, DE-MD (PMSA)	47.0	47.8	18.8	18.5	14.3	14.6
Worchester, MA-CT (PMSA)	35.7	33.4	8.4	6.1	8.3	5.9
Yakima, WA (MSA)	29.2	24.8	32.4	31.0	10.8	8.4
Yolo, CA (PMSA)	36.0	31.8	37.2	34.7	9.7	9.3
York, PA (MSA)	37.9	37.7	10.3	11.0	8.4	8.7
Youngstown-Warren, OH (MSA)	35.3	35.4	13.7	14.1	11.9	10.7
Yuba City, CA (MSA)	26.6	28.1	27.5	24.2	9.7	6.9
Yuma, AZ (MSA)	36.7	23.9	36.4	27.5	19.6	7.8

Notes: Includes conventional, conforming loans on owner-occupied single-family housing. Excludes loans with insufficient data to determine goal qualification.

Source: Compiled from HMDA, Loan/Application Register data, 1996.

Appendix B
Selection of Case-Study Metropolitan Areas

This study involved an institutional analysis to explain observed differences in the performance of Fannie Mae and Freddie Mac in a subset of metropolitan areas. This part of the investigation was conducted through onsite interviews and focused on the local institutional structure and programmatic strategies of the GSEs as well as the institutional relationships among the GSEs, public-sector agencies, lenders, and nonprofit and for-profit housing organizations.

To examine the impact of the institutional context in which the GSEs operate, we needed to differentiate metropolitan areas in terms of GSE performance. We developed four metropolitan categories to do this:

- PMSAs/MSAs in which both GSEs performed well pursuant to the housing goals compared to their performance in other metropolitan areas and in which they both performed at about the same level.
- PMSAs/MSAs in which Fannie Mae performed relatively well compared to its performance elsewhere, whereas Freddie Mac did not.
- PMSAs/MSAs in which Freddie Mac performed relatively well compared to its performance elsewhere, whereas Fannie Mae did not.
- PMSAs/MSAs in which neither GSE performed well compared to its performance elsewhere and in which they both performed at about the same level.

This appendix details the criteria and procedures employed to select metropolitan areas for the institutional analysis.

Selection Criteria

We selected four PMSAs/MSAs for the institutional analysis, one from each of the categories described above, using the following criteria:

1. **Known characteristics of GSE performance.** We used HMDA data on Fannie Mae and Freddie Mac purchases of conventional, conforming loans in 1995 and 1996 to categorize individual metropolitan areas.
2. **Known characteristics of GSE local institutional structure.** One of the main focuses of the institutional analysis was to determine the impact of the GSEs' local institutional structure. We therefore considered the location of Fannie Mae partnership offices and other known characteristics of the GSEs' local institutional activities in selecting MSAs for this analysis.
3. **Location.** We selected MSAs to ensure some measure of geographic diversity. In addition, because we used the National Community Reinvestment Coalition's (NCRC's) local members to assist in identifying potential interviewees, MSAs chosen for field visits included areas in which NCRC had participating members.
4. **Resource Constraints.** After full consideration of the criteria listed above, MSAs were selected to ensure that the cost of conducting site visits would fit within the project budget.

The next section details our categorization of metropolitan areas based on GSE performance in 1995 and 1996. This is followed by a presentation of our rationale for the selection of metropolitan areas from each of four performance categories, pursuant to criteria 2, 3, and 4.

Categorization of MSAs

We classified metropolitan areas based on a measure of GSE performance in each PMSA or MSA relative to their performance elsewhere. This process involved five main steps and produced a list of candidate metropolitan areas in each of the four metropolitan-area categories.

The main steps involved in classifying metropolitan areas were as follows:

- To ensure that the selection process would not be unduly influenced by GSE activity in metropolitan areas with a relatively small pool of loans available for sale to the secondary market, first we used HMDA to identify and exclude metropolitan areas with below-average mortgage market activity. Specifically, we excluded PMSAs/MSAs in which the total number of mortgage originations secured by single-family, owner-occupied properties fell below the median for all metropolitan areas in either 1995 or 1996.
- We then used HMDA to determine each GSE's performance in the remaining 162 metropolitan areas, according to the 1996 housing goals. That is, we calculated the share of each GSE's loan acquisitions in a metropolitan area that qualified for the low- and moderate-income, underserved area, and special affordability housing goals. These scores, stated as a percent of business, were combined into a single composite score, with equal weight given to each component. This step was conducted separately for 1995 and 1996.
- We then used the composite performance scores to divide the 162 metropolitan areas into quintiles, both for Fannie Mae and Freddie Mac and separately for 1995 and 1996. On a scale of 1 to 5, metropolitan areas in which a GSE performed worst fell into the first quintile and areas in which it performed best fell into the fifth.
- By combining the quintile scores for the two GSEs, we grouped the metropolitan areas into the four categories indicated above. Category 1 consists of metropolitan areas in which scores for both GSEs fell in the top two quintiles; category 4 in which, those scores for both GSEs fell in the bottom two quintiles; and categories 2 and 3, those in which the GSEs' quintile scores varied. Metropolitan areas in which both GSEs performed at an average rate compared with their performance elsewhere (PMSAs/MSAs in the third quintile) were not included in any of the four categories. Again, this step was conducted separately for 1995 and 1996.
- Finally, we excluded metropolitan areas if they met either of the following criteria:
  - PMSAs/MSAs that shifted categories between 1995 and 1996—we wanted to select MSAs demonstrating a consistent pattern of GSE performance over the 2-year period.
  - PMSA/MSAs in categories 1 or 4 when one GSE significantly outperformed the other—that is, when the composite performance measure for Fannie Mae either exceeded or fell short of the same measure for Freddie Mac (in either 1995 or 1996) by 10 percent or more.

MSAs Selected for Site Visits

We made our final choice of representative metropolitan areas from each category by applying the three other selection criteria, in consultation with HUD's Government Technical Representative as well as staff from Fannie Mae and Freddie Mac. As indicated below, our final selection of sites for the fieldwork portion of the research was determined largely by what we know about the institutional context in different communities:

- **Category 1—Washington, D.C.** We selected Washington, D.C., for this category for both substantive and logistical reasons. Substantively, the D.C. metropolitan area was of interest because it is the location of one of Fannie Mae's partnership offices and the home base for both GSEs. Not surprisingly, both GSEs are engaged in major initiatives in the D.C. metropolitan area. For example, Fannie Mae has embarked on

neighborhood-specific projects, partnering with Howard University in the Ledroit neighborhood and tapping into its America's Communities Fund to channel equity capital into the development of homes in Southeast D.C. Freddie Mac has an interesting partnership with HomeFree USA, a nonprofit homeownership counseling organization in the District. In addition, the relatively low cost of conducting interviews in the Washington, D.C., area offset some of the higher costs involved in conducting the other three site visits.

- **Category 2—Houston, Texas.** We selected Houston for this category because Fannie Mae has a partnership office here and has pledged $2 billion in affordable housing finance for this metropolitan area. Fannie Mae has played an important role in supporting affordable homeownership efforts by the local public sector. Houston also was selected because of local NCRC contacts in the affordable lending community, and because this metropolitan area would ensure some geographic diversity in the institutional analysis—the other areas all being east of the Mississippi and in the north/mid-Atlantic region.
- **Category 3—Columbus, Ohio.** We selected Columbus in part because this was one of the locations in which Fannie Mae opened a new partnership office in 1997. This action may or may not have resulted from Fannie Mae's poor performance relative to its own performance in other communities and to Freddie Mac's performance locally. Freddie Mac's last two annual reports to HUD do not mention Columbus as a city where exciting or innovative activity is occurring. Yet the absence of publicity does not mean there is no ongoing program; Freddie Mac provided a number of contacts in the Columbus area.
- **Category 4—Pittsburgh, Pennsylvania.** Fannie Mae recently pursued an initiative in the Pittsburgh area to purchase seasoned loans from local bank portfolios, suggesting that there has been an underutilization of the secondary market here. One of NCRC's members, the Pittsburgh Community Reinvestment Group, helped broker this recent initiative, and was a good point of contact for securing interviews.