HUD's Home Purchase Goals for Fannie Mae and Freddie Mac

Homeownership has long been considered part of the American dream for most families, and June has been declared National Homeownership Month for a number of years. As President Bush remarked in his 2007 proclamation, "Owning a home provides a source of security and stability for many of our citizens."[1] The U.S. Department of Housing and Urban Development (HUD) has been charged with the responsibility of promoting homeownership for those ready to take part, and numerous HUD programs have been established to this end.

HUD's Government-Sponsored Enterprise Regulatory Responsibilities

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA) established HUD as the "mission regulator" for Fannie Mae and Freddie Mac, the two housing government-sponsored enterprises (GSEs) whose public purposes are to establish and operate secondary mortgage market facilities for residential mortgages. Among other responsibilities, FHEFSSA mandated that HUD set, monitor, and enforce three affordable housing goals set forth in the statute. FHEFSSA also granted the HUD Secretary general regulatory authority over both GSEs, with responsibility to ensure that their activities are consistent with their charter authorities and public purposes. Other mission regulation responsibilities include reviewing GSE new program requests for approval or disapproval, ensuring that the GSEs' activities comply with the Fair Housing Act, and issuing a public use database on the GSEs' mortgage purchase activities.[2] FHEFSSA established the Office of Federal Housing Enterprise Oversight (OFHEO), an independent office within HUD, as the financial safety and soundness regulator for Fannie Mae and Freddie Mac.

The Housing Goals

FHEFSSA established three broad categories for the GSEs' housing goals; two are based on the borrower's income (or rent, for rental units) and one is based on the location of the mortgaged property. Specifically, the low- and moderate-income goal is targeted to families with incomes no greater than the area median income (AMI), and the special affordable housing goal is targeted to very-low-income families (those with incomes no greater than 60 percent of AMI) and low-income families (those with incomes no greater than 80 percent of AMI) living in low-income areas. The geographic goal is targeted to underserved areas. These areas are low-income and high-minority census tracts, which studies by HUD and outside researchers have found to have high mortgage denial rates and low mortgage origination rates.

HUD established the first goal levels in October 1993 for the 1993-through-1994 period. (These interim goals were subsequently extended through 1995.) HUD has since published regulations in 1995, 2000, and 2004 that set goal performance targets for 1996 through 2008. The housing goals are based on the GSEs' purchases of conventional mortgages for single-family owner-occupied housing, rental housing, and multifamily housing. Eligible purchases also include second mortgages, and, most recently, Home Equity Conversion Mortgages, sometimes referred to as "reverse mortgages." Each goal is expressed as a minimum targeted share of all dwelling units financed by a GSE in a calendar year.[3] Thus, for example, each unit in a 200-unit multifamily apartment building is given the same weight toward achieving a goal as each one-unit, single-family dwelling.

GSE Home Purchase Subgoals

In light of the national emphasis on homeownership, in 2004 HUD also established home purchase subgoals under each of the housing goals. The home purchase subgoals set performance targets for the GSEs' acquisitions of home purchase mortgages for each of the categories listed previously. HUD set the subgoal targets to increase incrementally during the 2005-through-2008 period, culminating in 2008 at a level that would cause the GSEs to lead the market in financing home purchase mortgages qualifying under each subgoal.

Specifically, HUD established a low- and moderate-income home purchase subgoal for GSE acquisitions of qualifying mortgages financing purchases of single-family properties located in metropolitan areas.[4] Similarly, HUD established an underserved areas home purchase subgoal and a special affordable home purchase subgoal. Because lower proportions of single-family mortgages generally meet the criteria for the three housing goals than do the respective proportions of all dwelling units, the home purchase subgoals are set at lower levels than the overall goals.

Rationale for GSE Home Purchase Subgoals

HUD established home purchase subgoals for the GSEs in 2004 for a variety of reasons. First, the subgoals supported the administration's emphasis on increasing homeownership opportunities for American families, including first-time homebuyers and minority borrowers. HUD did not explicitly link the home purchase subgoals to the President's goal of creating 5.5 million new minority homeowners by the end of the decade, but HUD believed that the GSEs were essential to the success of that effort. Although minority homeownership had grown, HUD recognized that the homeownership rate for African-American and Hispanic families was still approximately 25 percentage points below that for non-Hispanic White families. In addition, HUD found that, in 2002, the mortgage denial rate for African-American borrowers was more than twice that for White borrowers, even after controlling for borrowers' income.

Second, HUD cited growing evidence that inner-city neighborhoods were not always adequately served by mainstream lenders. Some researchers had concluded that a dual mortgage market had developed in our nation, with conventional mainstream lenders serving mainly White families living in the suburbs and the Federal Housing Administration and subprime lenders serving minority families concentrated in inner-city neighborhoods.

Third, HUD stated that the low homeownership rate of minorities and others living in inner cities suggested that considerable growth would occur in the origination of Community Reinvestment Act (CRA) loans in urban areas. CRA was enacted by Congress in 1977 to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations. For banks and thrifts, selling their CRA originations would free up capital to make new CRA loans. As a result, the CRA market segment provided an opportunity for the GSEs to expand their affordable lending programs. HUD found that Fannie Mae and Freddie Mac had already started developing programs to purchase CRA-type loans on a flow basis as well as after they had seasoned.

Fourth, HUD found evidence of a significant population of potential homebuyers who would likely respond well to increased homeownership opportunities created by the GSEs' response to the home purchase subgoals. Immigrants and minorities, in particular, were expected to be a major source of future homebuyers, accounting for almost two-thirds of the growth in the number of new households over the next 10 years. Furthermore, studies indicated the existence of a large, untapped pool of potential homeowners among the rental population. Indeed, the GSEs' experience with new outreach and affordable housing initiatives confirmed that potential.

Fifth, HUD believed that the GSEs had the ability to lead the primary market for single-family, owner-occupied home purchase mortgages, which is their core business. Both GSEs have had long experience in the home purchase market and, were, therefore, well positioned to further penetrate the market. In addition, potentially large year-to-year changes in refinance mortgage volumes (such as in the heavy refinance years of 1998 and 2001 through 2003) affect the GSEs' performance under the overall housing goals but would not have the same effects on the achievement of the home purchase subgoals because the subgoals are measured as the ratio of goal-qualifying home purchase mortgages in metropolitan areas to all home purchase mortgages in metropolitan areas.

Specifics of the Home Purchase Subgoals

In accordance with the idea that the GSEs should provide a leadership role in support of the home purchase mortgage market, HUD set the low- and moderate-income home purchase subgoal at 45 percent of home purchase mortgages purchased by the GSE in metropolitan areas for 2005, with the target rising to 46 percent in 2006 and 47 percent in both 2007 and 2008. The underserved areas home purchase subgoal was set at 32 percent for 2005, with this share rising to 33 percent in both 2006 and 2007 and to 34 percent in 2008. Finally, the special affordable home purchase subgoal was set at 17 percent of home purchase mortgages purchased by each GSE in metropolitan areas for both 2005 and 2006 and at 18 percent for 2007 and 2008. These subgoals were set to be in the upper range of HUD's estimate of the market such that the full performance levels in 2008 would indicate the GSEs' were leading the market for such purchases.

Performance on the Home Purchase Subgoals in 2005 and 2006

GSE performance on the home purchase subgoals in 2005 and 2006 is presented in Exhibit 1. As indicated, both enterprises exceeded the underserved areas home purchase subgoals of 32 and 33 percent for both years. Freddie Mac surpassed the special affordable home purchase

Exhibit 1. Shares of GSEs' Single-Family Home Purchase Mortgages in Metropolitan Areas Qualifying for GSE Housing Goals, 2001 Through 2006

Goal[a]	2001	2002	2003	2004	2005 Home Purchase Subgoal		2006 Home Purchase Subgoal		Ratio 2006 to 2001
					Required	Actual	Required	Actual	
Low and Moderate Income									
Fannie Mae	42.9%	45.3%	47.0%	47.0%	45%	44.6%	46%	46.9%	1.09
Freddie Mac	41.3%	44.0%	43.8%	43.3%	45%	46.8%	46%	47.0%	1.14
Ratio[b]	0.96	0.97	0.93	0.92		1.05		1.00	
Underserved Areas[c]									
Fannie Mae	24.4%	26.7%	26.8%	28.4%	32%	32.6%	33%	34.5%	1.41
Freddie Mac	22.3%	25.8%	24.0%	26.7%	32%	35.5%	33%	33.6%	1.51
Ratio[b]	0.91	0.97	0.90	0.94		1.09		0.97	
Special Affordable									
Fannie Mae	14.9%	16.3%	17.1%	16.8%	17%	17.0%	17%	17.9%	1.20
Freddie Mac	14.4%	15.8%	15.6%	15.2%	17%	17.7%	17%	17.0%	1.18
Ratio[b]	0.97	0.97	0.91	0.90		1.04		0.95	

GSE = government-sponsored enterprise.

[a] Abbreviated definitions of goals:

Low and Moderate Income: Households with income less than or equal to area median income (AMI).

Underserved Areas: Dwelling units in metropolitan census tracts with (1) tract median family income less than or equal to 90 percent of AMI or (2) minority concentration of at least 30 percent and tract median family income less than or equal to 120 percent of AMI; dwelling units in nonmetropolitan counties with (1) median family income less than or equal to 95 percent of the greater of state or national nonmetropolitan median income or (2) minority concentration of at least 30 percent and county 120 percent of the greater of state or national nonmetropolitan median income.

Special Affordable: Households with income (1) less than or equal to 60 percent of AMI or (2) less than or equal to 80 percent of AMI and located in low-income areas.

For the Low and Moderate Income and Special Affordable goals, AMI is median income for the metropolitan statistical area for borrowers in metropolitan areas and the greater of county or state nonmetropolitan median income for borrowers outside metropolitan areas.

[b] Ratio of Freddie Mac share to Fannie Mae share.

[c] Data for 2001 through 2004 are based on the 1990 Census; subgoal and performance for 2005 through 2006 are based on the 2000 Census.

Note: Home purchase subgoals first took effect in 2005.

Sources: Data for 2001 through 2003 reported in Table A.11, *Federal Register* (November 2, 2004): 63698: data for 2004 through 2006 from U.S. Department of Housing and Urban Development analysis of data submitted by the government-sponsored enterprises subgoal of 17 percent in 2005 but just met this subgoal last year. The opposite pattern prevailed for Fannie Mae, which just met this subgoal in 2005 but exceeded it last year. Freddie Mac also surpassed the low- and moderate-income goal of 45 and 46 percent for both years, while Fannie Mae fell short in 2005.

The home purchase subgoals did not take effect until 2005, but estimates of what the GSEs' performance would have been if these subgoals had been in effect for 2001 through 2004 are also presented in Exhibit 1. As indicated, the qualifying shares of the mortgages purchased by the GSEs have generally risen over time.

Overall Goals: Levels and Performance in 2001 Through 2006

This article has focused on the home purchase subgoals that HUD established for the GSEs in November 2004. As mentioned in "Fannie Mae and Freddie Mac: Enhanced Public Data and Recent Housing Goal Performance," an article published in the February 2006 issue of *U.S. Housing Market Conditions*, HUD has also established overall goals for these categories since the early 1990s. The previous article included data on the GSEs' performance on the overall goals through 2004; the corresponding results are shown for 2005 through 2006 in Exhibit 2.[5]

Exhibit 2. Overview of the GSEs' Housing Goals and Performance, 2001 Through 2006[a]

Goal[b]	2001	2002	2003	2004	2005	2006	Ratio 2006 to 2001	2001–2004 Goals	2005 Goals	2006 Goals
Low and Moderate Income										
Fannie Mae	51.5%	51.8%	52.3%	53.4%	55.1%	56.9%	1.10	50%	52%	53%
Freddie Mac	53.2%	50.5%	51.2%	51.6%	54.0%	55.9%	1.05			
Ratio[c]	1.03	0.97	0.98	0.97	0.98	0.98	0.95			
Underserved Areas										
Fannie Mae	32.6%	32.8%	32.1%	33.5%	41.4%	43.6%	1.34	31%	37%	38%
Freddie Mac	31.7%	31.0%	32.7%	32.3%	42.3%	42.7%	1.35			
Ratio[c]	0.97	0.95	1.02	0.96	1.02	0.98	1.01			
Special Affordable										
Fannie Mae	21.6%	21.4%	21.2%	23.6%	26.3%	27.8%	1.29	20%	22%	23%
Freddie Mac	22.6%	20.4%	21.4%	22.7%	24.3%	26.4%	1.17			
Ratio[c]	1.05	0.95	1.01	0.96	0.92	0.95	0.91			
Special Affordable Multifamily[d]										
Fannie Mae	$7.36	$7.57	$12.23	$7.32	$10.39	$13.31	1.81	$2.85	$5.49	$5.49
Freddie Mac	$4.65	$5.22	$8.79	$7.77	$12.35	$13.58	2.92	$2.11	$3.92	$3.92

GSE = government-sponsored enterprise.

[a] Percentages of dwelling units in properties whose mortgages were purchased by the GSEs that qualified for each goal in 2001 through 2006, based on the U.S. Department of Housing and Urban Development's November 2004 rule and goals for 2001 through 2006. Goal for Underserved Areas for 2001 through 2004 is based on 1990 Census data; goal for 2005 through 2006 is based on 2000 Census data.

[b] Goal categories are defined in footnote a of Exhibit 1.

[c] Ratio of Freddie Mac goal performance to Fannie Mae goal performance.

[d] Performance and goals in billions of dollars. Goals for the 2001-through-2004 period were 1.0 percent of each GSE's average mortgage purchases during the 1997-through-1999 period, and goals for 2005 through 2006 were 1.0 percent of each GSE's average total mortgage purchases in 2000 through 2002.

Source: U.S. Department of Housing and Urban Development analysis of data submitted by the GSEs; some results differ from performance reported by the GSEs in their Annual Housing Activities Reports

Conclusions About the Home Purchase Subgoals

As indicated in Exhibit 1, the special affordable shares for both GSEs increased between 2004 and 2006; this scenario was also the case for Freddie Mac on the low- and moderate-income home purchase subgoal, while Fannie Mae's performance in the latter area was essentially unchanged. Comparisons between performance on the underserved areas home purchase subgoal between 2004 and 2006 cannot be made as readily, due to the change from the use of 1990 Census data to 2000 Census data in 2005, but it seems apparent that performance rose for Freddie Mac over this period and probably also for Fannie Mae.

It is important to note that the gains in home purchase subgoal performance that have occurred in the past 2 years were made during a period of considerable retrenchment in the primary mortgage market. For example, a study that HUD released earlier this year concluded that the low- and moderate-income share of the primary home purchase mortgage market decreased from 45.5 percent in 2004 to 42.4 percent in 2005, and the corresponding share for special affordable mortgages fell from 16.4 percent in 2004 to 15.0 percent in 2005.[6] Thus, the GSEs faced increasing challenges in attaining these goals in 2005, and, although HUD has not published market estimates for 2006 as yet, it appears that the challenges increased further last year.[7]

Notes

[1] White House press release, June 1, 2007.

[2] The public use database was addressed in "Fannie Mae and Freddie Mac: Enhanced Public Data and Recent Housing Goal Performance," *U.S. Housing Market Conditions* (February 2006): 6-16.

[3] A small portion of the GSEs' mortgage acquisitions are excluded altogether from housing goal calculations, including most of their purchases of government-backed mortgages (including those insured by the Federal Housing Administration and those guaranteed by the Veterans Administration), in accordance with the provisions of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992.

[4] The home purchase subgoals apply only to metropolitan areas to maintain comparability with primary mortgage market data released in accordance with the Home Mortgage Disclosure Act (HMDA); HMDA data provide a better picture of mortgage originations in metropolitan areas than of originations in general, because some small nonmetropolitan lenders do not report under HMDA.

[5] For a more detailed analysis of overall housing goal performance, see "Goal Performance and Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac, 2001-05," *Housing Finance Working Paper No. HF-017* (May 2007), Paul B. Manchester.

[6] "The GSEs' Funding of Affordable Loans: A 2004-05 Update," *Housing Finance Working Paper No. HF-018* (June 2007), Harold L. Bunce. The figures cited in the text are the "Base Case" estimates contained in Table 3a of this study. The study found that the underserved areas share of the primary home purchase market did increase, from 34.6 percent in 2004 to 35.9 percent in 2005.

[7] Specifically, the U.S. Department of Housing and Urban Development's preliminary estimates are that the low- and moderate-income share of the primary home purchase subgoal mortgage market fell from 42.4 percent in 2005 to 39.5 percent in 2006, and the special affordable share fell from 15.0 percent in 2005 to 14.1 percent in 2006.

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