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GOAL PERFORMANCE AND CHARACTERISTICS OF MORTGAGES PURCHASED BY FANNIE MAE AND FREDDIE MAC, 2001-2005

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Goal Performance and Characteristics of Mortgages Purchased By Fannie Mae and Freddie Mac, 2001-2005[1]

I. Introduction and Main Findings

This paper reports on the recent performance of Fannie Mae and Freddie Mac, government-sponsored enterprises (GSEs) in the secondary mortgage market, on goals established for their mortgage purchases by the HUD Secretary. It also provides information on basic characteristics of the loans purchased by these GSEs in recent years.

A. Introduction

Fannie Mae and Freddie Mac are the two largest sources of housing finance in the United States. They fund the mortgages they acquire by purchasing loans directly from mortgage originators in the primary market, such as mortgage bankers and depository institutions, and holding these loans in portfolio, or by acting as a conduit and issuing mortgage-backed securities (MBS), which are then sold in the capital markets to a wide variety of investors. And in recent years the GSEs have increasingly securitized loans and held the resulting MBS in their own portfolios, rather than holding the loans in unsecuritized form or selling the securities to others. They have also stepped up their purchases of mortgage- and asset-backed securities issued by others.

HUD is the mission regulator for Fannie Mae and Freddie Mac, and a major aspect of this regulation involves setting minimum percentage-of-business goals for the GSEs' mortgage purchases. These housing goals measure the enterprises' support for very low-income and low- and moderate-income lending and lending in underserved geographic areas. Given the GSEs' dominant role in the mortgage market, the housing goals play an important role in encouraging mortgage originators to undertake more affordable lending. In October 2000 the Department updated and increased the levels of these goals for the years 2001-03, and these goals were subsequently extended through 2004. Subsequently, in November 2004 HUD established goals for 2005-08 and, for the first time, the Department set subgoals for minimum shares of home purchase mortgages on single-family properties in metropolitan areas that should be for families in each of the categories covered by the overall housing goals.

In 1992 Congress expressed concern about an information vacuum with regard to the activities of Fannie Mae and Freddie Mac.[2] To provide for enhanced oversight and regulation of

[1] The author gratefully acknowledges the computer and data assistance of Ian Keith and Nana Farshad. Helpful comments on an earlier draft were received from Harold Bunce, Sandra Fostek, and Ian Keith. The author assumes responsibility for any errors.

[2] See the *Federal Housing Enterprises Regulatory Reform Act of 1992*, Senate Report 102-282, 102nd Congress, 2nd. Session at 39 (1992) for Congressional concerns about the lack of information on the activities of Fannie Mae

these two enterprises and to increase information about the GSEs' operations, Congress enacted the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA). This act established the current regulatory structure for the GSEs. Specifically, it:

- Required the Secretary of HUD to establish annual affordable and geographic goals for the GSEs' purchases of mortgages. Under this authority, the Secretary initially set goals for 1993-95 (referred to as the "transition period"), raised them for 1996-2000, for 2001-04, and, most recently, for 2005-08.[3]

- Provided for financial safety-and-soundness oversight of the GSEs by the Office of Federal Housing Enterprise Oversight (OFHEO), an independent office within HUD which establishes capital standards for the enterprises and conducts regulatory examinations of their operations.

- Maintained programmatic oversight of the GSEs by the Secretary in all areas other than financial safety-and-soundness, under the Secretary's general regulatory authority.

- Provided for review and approval or disapproval of the GSEs' new program requests by the Secretary.

- Required the Secretary to issue regulations pertaining to the prohibition of discrimination by the GSEs, and called for the Secretary to periodically review and comment on the GSEs' underwriting and appraisal guidelines.

- Required the GSEs to submit loan-level data to the Secretary about the mortgages they purchase, including detailed borrower, property, and mortgage characteristics.

FHEFSSA further required HUD, after taking proprietary considerations into account, to make the loan-level data submitted by the GSEs available to interested parties in the form of a public use database.[4] The Act also called for the Department to analyze data on the GSEs' operations, in order to report to Congress and the public on the extent to which the GSEs are

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and Freddie Mac.

[3] HUD's current regulations regarding the GSEs, as revised on November 2, 2004, are contained in Title 24, Part 81 of the *Code of Federal Regulations*.

[4] The specifications of the public use database were presented in the *Federal Register*, Volume 61, October 17, 1996, pp. 54322-54329, and revised in the *Federal Register*, Volume 69, October 4, 2004, pp. 59484-59488. This database was also discussed in "New Public Data on Fannie Mae and Freddie Mac," *U. S. Housing Market Conditions*, May 1997, and subsequently in "Fannie Mae and Freddie Mac: Enhanced Public Data and Recent Housing Goal Performance," *U. S. Housing Market Conditions*, February 2006. Public data has been released for all years from 1993 through 2005. In 2004, the data base was expanded, making it generally consistent with data submitted by primary mortgage market loan originators in accordance with the Home Mortgage Disclosure Act (HMDA).

achieving their statutory purposes. This paper is the seventeenth in a series, *Working Papers in Housing Finance,* issued since December 1996. These papers are intended to help alleviate the "information vacuum" regarding the GSEs' activities that Congress found in 1992.

This study is the fourth paper that reviews the characteristics of the mortgages purchased by Fannie Mae and Freddie Mac, including their performance under the housing goals and loan and borrower characteristics.[5] Section II reviews Fannie Mae's and Freddie Mac's mortgage purchases by major property type. Section III presents information on the GSEs' performance on the housing goals established by HUD, with particular emphasis on performance since 2000, updating the data for 1993-2000 presented in the previous paper.[6] Section IV presents basic characteristics (borrower income and race, type of neighborhood, loan characteristics) of the GSEs' purchases of loans on one-family properties in 2001-05, updating earlier analyses which focused on the 1993-2000 period.[7]

The analysis in this paper is based on the loan-level data that the GSEs submit annually to HUD about the mortgages they purchase. In some cases certain data elements are missing from the loan-level data. Appendix A contains a discussion of the nature, extent, and trends in this "missing data problem" for recent years. More detailed data on various characteristics of the GSEs' mortgage purchases for some years is contained in the tables in Appendix B.

B. Current and Future Housing Goals

In November 2004 the Department raised the GSEs' housing goals significantly and established new subgoals for home purchase mortgages for 2005-08:

- The low- and moderate-income goal was increased from 50 percent in 2004 to 52 percent

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[5] The previously released papers are Paul B. Manchester, Sue George Neal, and Harold L. Bunce, *Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac, 1993-95,* Working Paper No. HF-003 (March 1998); Paul B. Manchester, *Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac: 1996-97 Update,* Working Paper No. HF-006 (August 1998); and Paul B. Manchester, *Goal Performance and Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac, 1998-2000,* Working Paper No. HF-015 (May 2002). Some data for 2000 are also presented in this paper for continuity with the last paper. HUD's most recent analysis of the topics discussed herein was contained in Appendix A of the source cited in Footnote 7.

[6] Under FHEFSSA, interim goals became effective in 1993. Appendix A of Working Paper No. HF-015 described the structure of and performance on the goals for 1993-95.

[7] Four other papers have focused on comparisons between the GSEs and the primary mortgage market. They are Harold L. Bunce and Randall M. Scheessele, *The GSEs' Funding of Affordable Loans,* Working Paper No. HF-001 (December 1996) and *The GSEs' Funding of Affordable Loans: 1996 Update,* Working Paper No. HF-005 (July 1998), and Harold L. Bunce, *The GSEs' Funding of Affordable Loans: A 1999 Update,* Working Paper No. HF-012 (December 2000) and *The GSEs' Funding of Affordable Loans: A 2000 Update,* Working Paper No. HF-013 (April 2002). Additional analyses and market comparisons are contained in HUD's rule establishing the GSEs' housing goals for 2005-08, published in the *Federal Register*, Volume 69, November 2, 2004, pages 63579-63887.

in 2005, 53 percent in 2006, 55 percent in 2007, and 56 percent in 2008;

- The underserved areas goal was increased from 31 percent in 2004 to 37 percent in 2005 (with a large portion of the increase resulting from the incorporation of data from the 2000 census), 38 percent in 2006 and 2007, and 39 percent in 2008;

- The special affordable goal was increased from 20 percent in 2004 to 22 percent in 2005, 23 percent in 2006, 25 percent in 2007, and 27 percent in 2008.

In addition, the Department established metropolitan area home purchase subgoals for the GSEs for the first time. These are:

- For the low- and moderate-income home purchase subgoal: 45 percent in 2005, 46 percent in 2006, and 47 percent in 2007-2008;

- For the underserved areas home purchase subgoal: 32 percent in 2005, 33 percent in 2006-2007, and 34 percent in 2008;

- For the special affordable home purchase subgoal: 17 percent in 2005-2006 and 18 percent in 2007-2008.

C. Main Findings

The main findings of this report are:

- Both GSEs surpassed each of the three housing goals established by the Department for 2005 (Table 2). On the *low- and moderate-income goal*, Fannie Mae's performance was 55.1 percent and Freddie Mac's performance was 54.0 percent, exceeding the goal of 52 percent. On the *underserved areas goal*, Fannie Mae's performance was 41.4 percent and Freddie Mac's performance was 42.3 percent, both well above the goal of 37 percent. On the *special affordable goal*, Fannie Mae's performance was 26.3 percent and Freddie Mac's performance was 24.3 percent, exceeding the special affordable goal of 22 percent. Performance on all of the goals in 2005 for both enterprises was at the highest level attained during the 2000-2005 period.

- Fannie Mae's *special affordable multifamily* purchases amounted to $10.39 billion in 2005, well above its subgoal for this category of $5.49 billion, and Freddie Mac's purchases amounted to $12.35 billion, far above its subgoal of $3.92 billion (Table 2). This represented a record level of such purchases for Freddie Mac, and the second-highest level for Fannie Mae after 2003, when such purchases amounted to $12.23 billion.

- Freddie Mac generally lagged slightly behind Fannie Mae in performance on the low- and moderate-income goal over the 2000-2005 period, while the record was mixed for the underserved areas and special affordable goals (Table 2).

- Fannie Mae's performance on the new *low- and moderate- income home purchase subgoal* was 44.6 percent in 2005, slightly short of the subgoal level of 45 percent, while Freddie Mac exceeded the subgoal, at 46.8 percent (Table 2A). Both GSEs surpassed the *underserved areas home purchase subgoal* of 32 percent, with Fannie Mae at 32.6 percent and Freddie Mac at 35.5 percent. And both also met the *special affordable home purchase subgoal* of 17 percent—Fannie Mae at 17.03 percent, and Freddie Mac at 17.7 percent.

- Loans to refinance existing mortgages were less likely to qualify for the low-mod housing goal in 2001-04 for both GSEs than loans taken out to purchase homes, though this pattern was reversed for Fannie Mae in 2005 (Table 5). This same general pattern prevailed with regard to the special affordable goal. The pattern was more mixed with regard to the underserved areas goal, with home purchase mortgages more "goal-rich" than refinance mortgages in some years, but the opposite in some other years. These patterns reflect the increase in mortgage rates in 2005—such increases typically reduce the share of home purchase mortgages qualifying for the goals, but increase the share of refinance mortgages qualifying for the goals.

- The shares of Freddie Mac's acquisitions of single-family home purchase loans for a number of categories of borrowers or locations were at record levels in 2005—specifically, this was the case for very low-income borrowers, African-American and Hispanic borrowers, first-time homebuyers, and low-income, high-minority, and underserved census tracts (Table 10). The peak shares were generally reached for Fannie Mae in 2004, thus the Freddie Mac-Fannie Mae performance ratio rose for every category in 2005. However, Freddie Mac still lagged behind Fannie Mae in 2005 in the shares of its home purchase mortgages for very low-income borrowers, Hispanics, and first-time homebuyers.

Additional, more detailed findings are contained in this paper in Sections II, III, and, especially, IV.

II. Overview of the GSEs' Mortgage Purchases in 2000-2005

Fannie Mae and Freddie Mac are exceptionally large business operations, both in terms of mortgages purchased and total dwelling units financed--see data for 2005 in **Table 1** and corresponding data for 2001-04 in **Tables B.1-B.4** of Appendix B.[8] In 2005, Fannie Mae's mortgage purchases of $582 billion financed 3.9 million dwelling units, while Freddie Mac's mortgage purchases of $563 billion financed 3.8 million units. Reflecting market trends, both GSEs' purchases were lower in 2005 than in 2004, and substantially below the record levels achieved during the peak of the refinancing wave in 2003, when Fannie Mae purchased $1.39 trillion in mortgages and Freddie Mac purchased $758 billion, financing 10.1 million and 5.8 million dwelling units respectively (see **Figure 1**.)

A. GSEs' Business by Major Property Type

The GSEs have traditionally focused on mortgages for one-unit owner-occupied properties, but in recent years they have become increasingly involved in the mortgage markets for all types of properties. Recent statistics on the GSEs' business by property type are presented in this section.

Mortgages on One-Family Owner-Occupied Properties. Mortgages purchased by the GSEs are primarily secured by one-family owner-occupied properties. Of all the housing units financed by the GSEs in 2005, for example, 88 percent of total dollar volume and 77 percent of all units were in these properties (see **Figure 2A**). HUD has estimated that such properties accounted for about 75 percent of all dwelling units financed in the conventional conforming market in 1999-2002 (see **Figure 2B**), but they accounted for about 82 percent of units financed by Fannie Mae and for about 84 percent of units financed by Freddie Mac during that period.[9] Thus both GSEs have traditionally focused their business somewhat more on one-family owner-occupied properties than the overall market.

Mortgages on Single-Family Rental Properties. The GSEs also purchase mortgages on single-family rental properties, which include both 1- to 4-unit investor-owned properties with no owner-occupied units, and 2- to 4-unit properties that contain one owner-occupied unit and one or more rental units.[10] Single-family rental mortgage purchases accounted for 11 percent of total dwelling units financed by Freddie Mac and 12 percent of total dwelling units financed by Fannie Mae in 2005. HUD has estimated that these properties accounted for about 11 percent of all dwelling units financed in the conventional conforming market in 1999-2002,

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[8] All tables and figures follow the text.

[9] HUD estimated primary mortgage market shares by property type in the rule establishing the GSEs' housing goals for 2005-08, published in the *Federal Register*, Volume 69, November 2, 2004, Table A.30, p. 63736.

[10] Data on the volume of the GSEs' single-family rental purchases backed by 2- to 4-unit owner-occupied properties include the owner-occupied units.

but they accounted for about 8 percent of units financed by Fannie Mae and for about 6 percent of units financed by Freddie Mac during this period. Thus both GSEs have traditionally focused their business somewhat less on single-family rental properties than the overall market.

Mortgages on Multifamily Properties. The GSEs also purchase mortgages on multifamily properties—apartment rental properties containing 5 or more units. After withdrawing from the multifamily mortgage market in the early 1990s, Freddie Mac reentered this market near the end of 1993, though it had negligible multifamily purchase volume ($191 million) for that year. Its volume, as reported by the Office of Federal Housing Enterprise Oversight (OFHEO), grew steadily through 1999 to $7.2 billion, before declining to $6.0 billion in 2000. Multifamily mortgage purchases increased further in the early part of this decade, peaking at $15.3 billion in 2003, before declining to $11.2 billion in 2005. Despite the increases, Freddie Mac's multifamily purchases accounted for only 9 percent of the units it financed in 1999-2002.[11] In comparison, HUD has estimated that multifamily mortgages accounted for about 15 percent of the total number of dwelling units financed in the conventional conforming market during that period.

Fannie Mae was much more active than Freddie Mac in the multifamily mortgage market for most of the 1990s, although Freddie Mac closed this gap near the end of the decade. Fannie Mae's multifamily purchases, as also reported by OFHEO, reached $19.1 billion in 2001, then declined to $16.6 billion in 2002, before reaching a record high of $30.9 billion in 2003 and remained high, at $21.5 billion in 2005. Fannie Mae's multifamily purchases represented about 10 percent of its overall business in terms of total units financed in 1999-2002, above the corresponding figure of 9 percent for Freddie Mac, but also below the market share of 15 percent.[12] Thus both GSEs have traditionally focused their business somewhat less on multifamily rental properties than the overall market.

B. GSEs' Share of the Market

The GSEs' purchases accounted for a rising share of mortgages originated in the single-family conventional conforming market between 1980 and 1993 (see **Figure 3**.) In the early 1980s, the GSEs' share ranged from 12 to 34 percent of the dollar volume of originations in that market. In the high volume origination years of 1986 and 1987, the GSEs' share rose to about 45 percent, and then rose dramatically in the early 1990s, reaching a peak of 71 percent during the high refinancing year of 1993. In 1994, the GSEs' share of the market dropped to 58 percent,

[11] Multifamily purchases consistently represent a greater percentage of total units financed than of the dollar amount of mortgages purchased. This reflects the fact that multifamily mortgages generally have a much lower mortgage amount per unit than mortgages on one-family owner properties (e.g., $49,000 versus $170,000 for the GSEs' combined purchases in 2005).

[12] A greater presence in the multifamily market is a major reason why Fannie Mae's performance on the housing goals consistently exceeded Freddie Mac's record for most of the 1990s. Also, the increase in the multifamily share of Freddie Mac's mortgage purchases since 1993 was a major reason for the gains in its performance on the housing goals over this period.

due primarily to a greater volume of adjustable-rate mortgages (ARMs).[13] The GSEs' market share fell further to 48 percent in 1995, remained below 55 percent in 1996-97, rose above 60 percent in 1998-99, and declined to 56 percent in 2000. The 2001-03 refinancing wave caused another increase in the GSEs' share to 63 percent in 2001 and 69 percent in 2002 and 2003. But as refinance volume fell off, the share fell to the lowest levels since 1990—46 percent in 2004 and just 42 percent in 2005. Another factor accounting for the drop in the GSEs' share of the market in recent years has been the sharp increase in originations of subprime and nontraditional mortgages, areas in which the GSEs have not traditionally purchased many mortgages from originators. Thus the trend toward an increased share in the 1980s and early-1990s was followed by a relatively flat share between 1993 and 2003, before a drop in share in 2004-05.

The GSEs' purchases have traditionally represented a smaller share of the multifamily market than of the single-family market, though that pattern has changed somewhat in recent years. Conventional multifamily mortgage originations have increased significantly in recent years, from an estimated $49 billion in 1999 to $59 billion in 2001 and $89 billion in 2003.[14] But the GSEs' combined purchases of multifamily mortgages have increased even more rapidly, from $11.5 billion in 1999 to $19.2 billion in 2001 and $30.7 billion in 2003. Thus the GSEs' share of this market has risen from an estimated 25 percent in 1999 to 33 percent in 2001 and 35 percent in 2003.

C. Conclusions

The section has provided a brief overview of the GSEs' mortgage purchases between 2001 and 2005. Following broad market patterns, the GSEs' mortgage purchases reached record highs during the refinancing wave which crested in 2003, before declining in 2004 and falling further in 2005. In each year, the distribution of the GSEs' purchases by major property type differed from the corresponding distribution of market originations--the GSEs' focus their business somewhat more on mortgages on one-family owner-occupied properties than the overall market. Their business has traditionally been less focused on mortgages on single-family rental and multifamily properties than the overall market.

Since the mid-1990s, the GSEs have generally purchased at least 50 percent of the dollar volume of single-family mortgages originated in the conforming conventional mortgage market, peaking at 69 percent in 2002-03. However, this share subsequently fell off sharply to 46 percent in 2004 and 42 percent in 2005.

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[13]Banks and thrifts are less likely to sell ARMs, which involve little interest rate risk, than fixed-rate mortgages to the GSEs. They generally hold ARMs in their portfolios.

[14] These estimates are from Table D.2 of HUD's final rule on the GSEs' housing goals for 2005-08, published in the *Federal Register*, Volume 69, November 2, 2004, p. 63823. These estimates are subject to some degree of uncertainty, reflecting the lack of a comprehensive database on multifamily mortgage originations.

III. Analysis of GSEs' Performance on HUD's Housing Goals in 2001-05

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA) requires the Secretary of HUD to establish three broad affordable housing goals for each of the GSEs: (1) a low- and moderate-income goal; (2) a geographically-targeted goal, for housing located in underserved areas; and (3) a targeted income-based goal for special affordable housing. This section discusses these housing goals and analyzes the GSEs' performance on the goals in 2001-05, as determined by HUD. Sections A. through C. deal with the housing goals and performance in 2001 through 2004; Sections D. through G. deal with the 2005 housing goals and goal performance in 2005, with an analysis of changes in performance between 2004 and 2005 in Section E.

A. Definitions of Housing Goals for 2000-2004

In accordance with FHEFSSA, in December 1995 HUD issued housing goals for the GSEs for 1996-99, which were subsequently extended to 2000. Those goals revised and restructured the original goals established under FHEFSSA, which were in effect for the 1993-95 "transition period." Subsequent revisions were made in October 2000, when the 2001-04 goals were established. The goals for 2000 through 2004 were:

- A *low- and moderate-income goal*, which targeted mortgages on housing for families with income at or below area median income. This goal was 42 percent of total units financed by each of the GSEs for each year from 1997 through 2000. This "low-mod" goal was increased to 50 percent for each year from 2001 through 2003, and it remained at that level for 2004. Certain incentives, or "bonus points," were also in effect for 2001-03, but not for 2004, as discussed in the next section.

- A *geographically-targeted goal*, which targeted mortgages on properties located in "underserved areas," defined by HUD as low-income and high-minority census tracts (excluding high-income, high-minority tracts). This goal was 24 percent of total units financed by each of the GSEs for each year from 1997 through 2000. This "underserved areas" goal was increased to 31 percent for each year from 2001 through 2003, and it remained at that level for 2004.

- A *special affordable goal*, which targeted mortgages on housing for very low-income families (those with incomes no greater than 60 percent of area median income) and low-income families living in low-income neighborhoods. This goal was 14 percent of total units financed by each of the GSEs in each year from 1997 through 2000. The special affordable goal was increased to 20 percent for each year from 2001 through 2003, and it also remained at that level for 2004.

- *Special affordable multifamily subgoals*, for very low-income renters and low-income renters living in low-income neighborhoods in multifamily properties. These subgoals were expressed in terms of a minimum dollar volume of multifamily loan purchases for each GSE, unlike the percentage-based goals above. Specifically, the subgoals were set at $1.29 billion per year for Fannie Mae and $988 million per year for Freddie Mac, for each year from 1996 through 2000. The subgoals were subsequently increased to $2.85 billion per year for Fannie Mae and $2.11 billion per year for Freddie Mac, for each year from 2001 through 2004.

B. Targeted Incentives for Housing Goals for 2001-03

In addition to increasing the levels of the housing goals, HUD established certain incentives for 2001-03, to encourage the GSEs to be more active in certain segments of the mortgage markets. These included "bonus points," applicable to both GSEs, and a "temporary adjustment factor," applicable to Freddie Mac only.

Bonus points. "Bonus points" were established for purchases of two types of mortgages:

i. <u>Small multifamily properties</u>. Each goal-qualifying unit financed in a 5-50 unit multifamily property counted as two units in the numerator, and one unit in the denominator, in calculating goal performance ("double credit".)

ii. <u>Single-family rental properties</u>. Above a moving threshold, each goal-qualifying unit financed in a 2-4 unit property with at least one owner-occupied dwelling unit (and 1-3 rental units) counted as two units in the numerator, and one unit in the denominator, in calculating goal performance.

Temporary adjustment factor. In response to Congressional direction, HUD also established a "temporary adjustment factor" (TAF) for Freddie Mac. Under the TAF, each goal-qualifying unit financed by Freddie Mac in a <u>large multifamily property</u> (i.e., one containing more than 50 units) counted as 1.35 units in the numerator, and one unit in the denominator, in calculating goal performance. The TAF did not apply to Fannie Mae, because Congress felt that Freddie Mac was disadvantaged by its absence from the multifamily mortgage market in the early-1990s, and that properties financed during that period would be seeking refinancing during the 2001-03 period.

Bonus points and the TAF both expired at the end of 2003. This, in effect, amounted to an increase in the housing goals in 2004 by the value of these incentives to the GSEs.[15]

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[15] For an analysis of the effectiveness of these incentives in achieving their goals and the effects of discontinuing the goals, see Paul B. Manchester, "Effectiveness of HUD's Housing Goal Incentives for Freddie Mac and Fannie Mae: Small Multifamily and Certain Single-Family Rental Properties," presentation at the midyear conference of the American Real Estate and Urban Economics Association, May 30, 2006. This paper is available at www.huduser.org/publications/affhsg/AREUEA_May2006.html.

C. Goal Performance in 2000-04

The levels of the housing goals and the GSEs' performance on the goals for all years from 2000 through 2004 are presented in Table 2 and shown in Figures 4-6 and Figure 6A. The figures on goal performance are based on HUD's analysis of loan-level data submitted to the Department by the GSEs.[16] (These tables also contain information pertaining to the goals and goal performance in 2005, which will be discussed below.)

As mentioned, the 1996-2000 goals replaced those that were in effect for the 1993-95 "transition period." The major change was that the focus of the geographically-targeted goal was shifted from central cities, as defined by the Office of Management and Budget, to "underserved areas" in cities, suburbs, and rural areas, as defined by HUD, based on research on mortgage originations and loan denial rates. The special affordable goal was also reformulated as a percentage-of-business goal from the dollar-based goals of the transition period, and its structure was simplified. A focus on multifamily mortgages was retained through the special affordable multifamily subgoals. The 1993-99 goals and the GSEs' performance on those goals were discussed in more detail in an earlier paper.[17]

Performance in 2000. As shown in Table 2, HUD's analysis of loan-level data found that both Fannie Mae and Freddie Mac exceeded all of the housing goals set for them by the Department for 2000:

- On the *low- and moderate-income goal*, Fannie Mae's performance was 49.5 percent and Freddie Mac's performance was slightly higher, at 49.9 percent. Both GSEs far surpassed the low-mod goal of 42 percent, and approached the 50 percent goal that HUD established for 2001-03.

- On the *underserved areas goal*, Fannie Mae's performance was 31.0 percent and Freddie Mac's performance was somewhat lower, at 29.2 percent. Both enterprises exceeded the underserved areas goal of 24 percent by a wide margin, and reached or neared the 31 percent goal established for 2001-03.

- On the *special affordable goal*, Fannie Mae's performance was 19.2 percent and Freddie Mac's performance was higher, at 20.7 percent. Both GSEs were well

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[16] In some cases these figures differ from performance as reported by the GSEs in their Annual Housing Activity Reports (AHARs), submitted annually to the Department.

[17] See Paul B. Manchester, "Goal Performance and Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac," Working Paper No. HF-015 (May 2002). For a fuller discussion of the transition period housing goals, see Chapter 3 of HUD's privatization study, *Privatization of Fannie Mae and Freddie Mac: Desirability and Feasibility, A HUD Report*, Office of Policy Development and Research, HUD, July 1996.

above the special affordable goal of 14 percent, and neared or reached the 20 percent goal established for 2001-03.[18]

- On the dollar-based *special affordable multifamily subgoals*, Fannie Mae's purchases in 2000 amounted to \$3.79 billion--nearly three times its goal of \$1.29 billion; Freddie Mac's purchases amounted to \$2.40 billion--approximately 2.5 times its goal of \$0.99 billion.

Overall, in 2000 both GSEs attained the highest levels of performance on each of the goals since the goals for 1996-2000 were established in 1995. And, as noted, in some cases their records on the goals in 2000 neared or reached the higher goal levels established for the 2001-03 period.

Goal Performance in 2001-04. HUD's analysis of loan-level data for 2001-04 found the following:

- On the *low- and moderate-income goal*, Fannie Mae's performance rose steadily, from 51.5 percent in 2001 to 51.8 percent in 2002, 52.3 percent in 2003, and 53.4 percent in 2004. Freddie Mac's performance was at its highest in 2001, at 53.2 percent, before falling to 50.5 percent in 2002, but then gradually increased to 51.2 percent in 2003 and 51.6 percent in 2004. Both GSEs surpassed the low-mod goal of 50 percent that was in effect for each year. Goal performance in 2004 is not readily comparable with performance in 2001-03, however, due to the expiration of "bonus points" and Freddie Mac's temporary adjustment factor at the end of 2003. If these incentives had not been in effect in 2003, and the GSEs' purchases had been the same as actual purchases, Fannie Mae's performance on this goal in 2003 would have been 48.7 percent (rather than 52.3 percent) and Freddie Mac's performance would have been 45.0 percent (rather than 51.2 percent.) Thus excluding the effects of these incentives, the increase in performance in 2004 was 4.7 percentage points for Fannie Mae and 6.6 percentage points for Freddie Mac, rather than the increases of 1.1 percentage points and 0.4 percentage point respectively, which were based on official low- and moderate-income goal performance figures.

- On the *underserved areas goal*, Fannie Mae's performance was 32.6 percent in 2001, 32.8 percent in 2002, 32.1 percent in 2003, and 33.5 percent in 2004, while Freddie Mac's performance was 31.7 percent in 2001, 30.97 percent in 2002, 32.7 percent in 2003, and 32.3 percent in 2004. Thus Fannie Mae surpassed the underserved areas goal of 31 percent that was in effect for each year, while Freddie

[18] Fannie Mae reported its performance on the special affordable goal as 22.3 percent in 2000. The difference between the Fannie Mae-reported figure and the official HUD figure (19.2 percent) on special affordable goal performance results from HUD's goal-counting provisions regarding "recycling" of proceeds from the sale of seasoned special affordable mortgages.

Mac fell slightly short of the goal in 2002.[19] For this goal also, performance in 2004 is not readily comparable with performance in 2001-03, due to the expiration of "bonus points" and Freddie Mac's temporary adjustment factor at the end of 2003. If these incentives had not been in effect in 2003, and the GSEs' purchases had been the same as actual purchases, Fannie Mae's performance on this goal in 2003 would have been 29.2 percent (rather than 32.1 percent) and Freddie Mac's performance would have been 27.7 percent (rather than 32.7 percent.) Thus, excluding the effects of these incentives, the 2004 increase in performance was 4.3 percentage points for Fannie Mae and 4.6 percentage points for Freddie Mac, rather than the increase of 1.4 percentage points and the decrease of 0.4 percentage point respectively, based on official underserved areas goal performance figures.

- On the *special affordable goal*, Fannie Mae's performance was 21.6 percent in 2001, 21.4 percent in 2002, 21.2 percent in 2003, and 23.6 percent in 2004, while Freddie Mac's performance was 22.6 percent in 2001, 20.4 percent in 2002, 21.4 percent in 2003, and 22.7 percent in 2004. Both GSEs surpassed the special affordable goal of 20 percent that was in effect for each year. Again, goal performance in 2004 is not readily comparable with performance in 2001-03, due to the expiration of "bonus points" and Freddie Mac's temporary adjustment factor at the end of 2003. As for the other two goals, if these had not been in effect in 2003, and the GSEs' purchases had been the same as actual purchases, Fannie Mae's performance on this goal in 2003 would have been 19.3 percent (rather than 21.2 percent) and Freddie Mac's performance would have been 17.8 percent (rather than 21.4 percent.) As for the other two goals, excluding the effects of these incentives on goal performance, the increase in performance in 2004 was 4.3 percentage points for Fannie Mae and 4.9 percentage points for Freddie Mac, rather than the increases of 2.4 percentage points and 1.3 percentage points respectively, based on official special affordable goal performance figures.

- On the dollar-based *special affordable multifamily subgoals*, Fannie Mae's purchases amounted to $7.4 billion in 2001, $7.6 billion in 2002, $12.2 billion in 2003, and $7.3 billion in 2004, exceeding its goal of $2.85 billion by wide margins in each year. Freddie Mac's special affordable multifamily purchases were $4.65 billion in 2001, $5.2 billion in 2002, $8.8 billion in 2003, and $7.8 billion in 2004, also exceeding its goal of $2.11 per year by wide margins.[20]

[19] HUD adjusted Freddie Mac's underserved areas goal performance in 2002 due to double-counted loans and accounting errors. These adjustments reduced Freddie Mac's performance from the 31.8 percent figure that they reported to HUD to 30.97 percent.

[20] "Bonus points" and Freddie Mac's "Temporary Adjustment Factor" for GSE purchases of mortgages on small and large multifamily properties did not apply to this subgoal in 2001-03.

D. Goals and Subgoals for 2005-08, Performance in 2005

Housing Goals for 2005 Through 2008. The most recent changes in the GSEs' housing goals were made in November 2004. In previous periods, HUD generally set each goal at a certain level for each year covered by the goals, but the goals for 2005 through 2008 are increasing during this period, to bring their performance up to levels corresponding to the goal-qualifying shares of units financed in the primary mortgage market.[21] Specifically, the low- and moderate-income goal has been increased from 50 percent in 2004 to 52 percent in 2005, 53 percent in 2006, 55 percent in 2007, and 56 percent in 2008. Similarly, the geographically-targeted (underserved areas) goal has been increased from 31 percent in 2004 to 37 percent in 2005, 38 percent in 2006-07, and 39 percent in 2008.[22] The special affordable goal has been increased from 20 percent in 2004 to 22 percent in 2005, 23 percent in 2006, 25 percent in 2007, and 27 percent in 2008. Unlike the overall goals, the special affordable multifamily subgoal is not being increased annually over the 2005-08 period. Rather, as in the past, it is set at a minimum purchase volume--$5.49 billion per year for Fannie Mae and $3.92 billion per year for Freddie Mac.

Home Purchase Subgoals. The overall housing goals have been expressed in terms of minimum qualifying shares of all units financed by the GSEs, combining mortgages on both single-family and multifamily owner-occupied and rental housing, and including <u>all</u> mortgages, whether they are for home purchase, refinancing, or some other purpose. In light of the national emphasis on homeownership, effective in 2005 HUD has also established minimum home purchase subgoals for metropolitan areas.[23] These subgoals specify minimum shares of owner-occupied units in single-family properties that must be financed for the same groups as the overall goals. Thus HUD has established minimum home purchase subgoals for low- and moderate-income families, special affordable families, and families in underserved areas. To facilitate comparisons with HMDA data for the primary market, these home purchase subgoals have been established for metropolitan areas on an aggregated basis only. The low-mod home purchase subgoal for 2005 was 45 percent, the underserved areas home purchase subgoal was 32 percent, and the special affordable home purchase subgoal was 17 percent. These subgoals will also increase over the 2006-08 period.

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[21] In this case, the primary market is the market for conventional, conforming loans, excluding lower-rated subprime loans.

[22] The underserved areas goal for 2005 through 2008 is based on data from the 2000 Census, while the goal for previous years was based on 1990 Census data. Because of the increase in the minority share of the population, a greater number of census tracts now qualify as underserved areas than in the past. Thus, approximately 5 percentage points of the 8-percentage point increase in this goal by 2008 reflect rebasing of the goal to the 2000 Census.

[23] These subgoals apply only to metropolitan areas, because data on the primary mortgage market submitted in accordance with the Home Mortgage Disclosure Act (HMDA) was used as a benchmark in establishing these subgoals, and HMDA coverage of the nonmetro market is less reliable than HMDA coverage of the metro market. However, HUD also monitors the shares of home purchase mortgages in nonmetro areas which are for the families targeted by the home purchase subgoals, although these are not part of the subgoals.

Goal Performance in 2005. HUD recently released official figures on GSE goal and subgoal performance in 2005. As shown in **Table 2**, Fannie Mae's performance on the low-mod goal was 55.1 percent, and Freddie Mac's was 54.0 percent, both in excess of the goal of 52 percent. For the underserved areas goal, Fannie Mae's performance was 41.4 percent and Freddie Mac's was 42.3 percent, thus both also exceeded the 37 percent goal by wide margins. And for the special affordable goal of 22 percent, Fannie Mae's performance was 26.3 percent and Freddie Mac's was 24.3 percent. Both GSEs also exceeded their dollar-based special affordable multifamily subgoals by wide margins

Home Purchase Subgoal Performance in 2005. As discussed, explicit GSE home purchase subgoals were first established for 2005, with increases scheduled over the 2006-08 period. As shown in **Table 2A** and **Figure 6B**, with regard to the 2005 low-mod home purchase subgoal of 45 percent, Fannie Mae's performance was 44.6 percent, and Freddie Mac's was 46.8 percent, thus Freddie Mac surpassed the subgoal, but Fannie Mae's performance fell 0.4 percentage point short of the subgoal. For the underserved areas home purchase subgoal of 32 percent in 2005, Fannie Mae's performance was 32.6 percent, and Freddie Mac's was 35.5 percent, thus both GSEs' performance exceeded this subgoal. And for the special affordable home purchase subgoal of 17 percent in 2005, Fannie Mae's performance was 17.0 percent, and Freddie Mac's was 17.7 percent, thus Freddie Mac surpassed this subgoal, while Fannie Mae's performance just equaled the subgoal.

One reason for the difference in performance between the GSEs on the low- and moderate-income and special affordable goal home purchase subgoals may be their purchases of private-label securities. Based on data published by the Office of Federal Housing Enterprise Oversight,[24] Freddie Mac increased its purchases of private-label single-family mortgage-related securities by nearly 50 percent in 2005, from $121.1 billion in 2004 to $180.0 billion in 2005, while Fannie Mae cut back its purchases of these securities by more than 50 percent, from $90.7 billion in 2004 to $41.3 billion in 2005, only 23 percent of Freddie Mac's 2005 volume. The GSEs have traditionally purchased private-label securities which are "goal-rich" (that is, with high goal-qualifying shares); thus the disparity between the GSEs in their purchases in this area was a significant factor in accounting for this difference in their performance on the low-mod home purchase subgoal in 2005.

The home purchase subgoals did not take effect until 2005, but it is instructive to consider what the GSEs' performance would have been if these goals had been in effect prior to that year, as shown in **Table 2A**. As indicated, Fannie Mae's performance on the low- and moderate-income home purchase subgoal in 2005 was lower than what its performance would have been on such a goal in 2002-04, while Freddie Mac's performance was higher than it would have been in any year from 2000 through 2004. To account for the effect of the switch to data based on the 2000 Census last year, actual performance on the underserved areas home purchase subgoal in 2005 should be reduced by about 5 percentage points, to make it comparable with the

[24] OFHEO *2006 Report to Congress*, Historical Data Tables, Table 1b, page 4, and Table 11b, page 22.

data for 2000-04. With this adjustment, Freddie Mac's performance reached a peak on this subgoal in 2005 also, while Fannie Mae's performance (27.6 percent) was somewhat below what it would have been in 2004 (28.4 percent). For the special affordable home purchase subgoal, Freddie Mac's performance was higher in 2005 than it would have been in any of the years from 2000 through 2004, while Fannie Mae's performance was comparable to what it would have achieved in 2003.

Fannie Mae's performance on the overall low-mod goal in 2005 exceeded Freddie Mac's performance, despite the fact that Freddie Mac's performance exceeded Fannie Mae's performance on the metro home purchase subgoal. Also, as discussed below, the low-mod share of Freddie Mac's multifamily units exceeded the corresponding share of Fannie Mae's multifamily units. The explanation for the disparity between overall goal results and home purchase results is that the low-mod share of Fannie Mae's purchases for single-family refinance and other purpose mortgages and single-family rental mortgages (and home purchase units outside metropolitan areas) significantly exceeded the corresponding share for Freddie Mac, as shown in **Figure 6C.** This was also true for the special affordable goal and home purchase subgoal, as shown in **Figure 6D.**

E. Analysis of Changes in Goal Performance Between 2004 and 2005

Fannie Mae and Freddie Mac both demonstrated significant gains in performance on all of the housing goals in 2005, as shown in **Table 2** and **Figures 4-6**.[25] Both enterprises also surpassed their dollar-based special affordable multifamily subgoals by wide margins in 2005, with record purchases in this area by Freddie Mac, and Fannie Mae's volume second only to the level attained in 2003.

Low- and Moderate-Income Goal Performance. Fannie Mae's performance on the low- and moderate-income goal rose by 1.7 percentage points in 2005, as shown in **Figure 4**. This reflected an increase in the low-mod share of its single-family mortgage purchases, from 48.9 percent in 2004 to 49.8 percent in 2005, and an increase in the multifamily share of its goal-eligible units, from 11 percent in 2004 to 13 percent in 2005.[26]

Freddie Mac's performance on the low- and moderate-income goal rose by 2.4 percentage points in 2005. This reflected an increase in the low-mod share of its single-family mortgage purchases, from 44.8 percent in 2004 to 47.7 percent in 2005.

Special Affordable Goal Performance. Fannie Mae's performance on the special affordable rose by 2.7 percentage points in 2005, as shown in **Figure 6**. As in the case of the low-mod goal, this reflected an increase from 2004 in the special affordable share of its single-

[25] The units financed by one mortgage can be counted toward more than one of the housing goals.

[26] An increase in the multifamily share of units raises performance on the low- and moderate-income goal because more than 90 percentage of such units typically qualify for this goal.

family mortgage purchases, and an increase in the multifamily share of its goal-eligible units.

Freddie Mac's performance on the special affordable goal rose by 1.6 percentage points in 2005. Also as in the case of the low-mod goal, this was primarily due to an increase from 2004 in the special affordable share of its single-family mortgage purchases. Another factor was an increase in the special affordable share of its multifamily purchases.

On the special affordable multifamily subgoal, Freddie Mac's purchases increased significantly to $12.35 billion in 2005, from $7.77 billion in 2004, as shown in **Figure 6A**. Fannie Mae's special affordable multifamily mortgage purchases also increased somewhat, from $7.32 billion in 2004 to $10.39 billion in 2005, but were below the record level of $12.23 billion attained in 2003. Both GSEs comfortably passed their special affordable multifamily subgoals in 2005, with Freddie Mac's purchases equal to 3.2 times its goal ($3.92 billion) and Fannie Mae's purchases equal to 1.8 times its goal ($5.49 billion).

Underserved Areas Goal Performance. Fannie Mae's performance on the underserved areas goal increased sharply in 2005 to 41.4 percent, up from 33.5 percent in 2004, as shown in **Figure 5**. About 5 percentage points of this increase was based on the change from the use of 1990 census data for the 2004 goal to the use of 2000 census data for the 2005 goal. This census effect reflected an increase over the decade in the number of underserved tracts, defined as low-income and high-minority tracts (excluding high-income high-minority tracts), as a result of the increase in the minority share of the population over the decade.

The underserved share of mortgage purchases by Fannie Mae rose by more than this 5 percentage point increase resulting from the change from the 1990 census to the 2000 census. This was because of the increases in the underserved areas share of single-family units financed, from 32.1 percent to 38.4 percent; the increase in the multifamily share of units financed by Fannie Mae, from 11 percent in 2004 to 13 percent in 2005; and the increase in the qualifying share of multifamily units, from 45.1 percent in 2004 to 62.3 percent in 2005.

Freddie Mac's performance on the underserved areas goal rose by 10 percentage points last year, from 32.7 percent in 2004 to 42.7 percent in 2005, with approximately half of this increase due to the effects of the change from 1990 census data to 2000 census data. As for Fannie Mae, the underserved share of both single-family and multifamily units increased by more than the 5 percent census effect. These were offset somewhat by a drop in the multifamily share of goal-eligible units, which had a slightly negative effect on performance, because the goal-qualifying share of multifamily units was greater than the goal-qualifying share of single-family units in both years.

F. Longer Term Trends in Goal Performance

Freddie Mac outperformed Fannie Mae on the low- and moderate-income goal in 2000-01, as shown in **Table 2** and **Figures 4-6**. This reversal of the pattern that generally prevailed in the 1990s was in large part attributable to Freddie Mac's rebuilding of its multifamily mortgage business, after withdrawing from that market in the early 1990s. Fannie Mae regained the lead on the low-mod goal in 2002, and has outperformed Freddie Mac in each year since then. It should be noted that Freddie Mac, but not Fannie Mae, benefited from the "temporary adjustment factor," described above, in 2001-03. Without that factor, Fannie Mae's performance on this goal would have exceeded Freddie Mac's performance in 2001, and would have exceeded it by wider margins in 2002 and 2003. For 2004 and 2005, the same counting provisions applied to both GSEs, and Fannie Mae's performance exceeded Freddie Mac's performance by 1.8 and 1.1 percentage points, respectively.

The pattern for the special affordable goal was similar to that for the low-mod goal, with Freddie Mac outperforming Fannie Mae in 2000-01, but (with the exception of 2003) Fannie Mae outperforming Freddie Mac since that time, with a 2 percentage point advantage last year, as shown in **Figure 6**.

Overall, the GSEs have shown about the same level of performance on the underserved areas goal in the past few years, as indicated in **Figure 5.** Fannie Mae outperformed Freddie Mac in 2002 and 2004, but this pattern was reversed in 2003 and 2005.

G. Comparison of GSEs' Goal Performance in 2005 by Property Type

In comparing the GSEs' goal performance, it is useful to break out the GSEs' mortgage purchases by property type, because the goal-qualifying shares differ between property types, and because the relative importance of various property types in the mortgage market varies over time.

Low- and Moderate-Income Goal. Analysis of data reported by the GSEs for 2005 indicates that Fannie Mae outperformed Freddie Mac by 2.1 percentage points in the share of its single-family business (including both owner-occupied and rental 1-4 unit properties) for low- and moderate-income families. Fannie Mae's overall advantage in low-mod goal performance was slightly smaller because of differences between the two GSEs in the share of multifamily units qualifying for this goal—96 percent for Freddie Mac, and 90 percent for Fannie Mae. The mix of units acquired between single-family and multifamily units did not play a role in explaining the difference in performance between the enterprises in 2005, because multifamily properties accounted for 13 percent of units financed by each GSE last year.

Special Affordable Goal. The reasons for the difference between the GSEs in their performance on the special affordable goal are essentially the same as those for the low-mod goal. That is, the special affordable share of units financed was somewhat higher for Fannie Mae (21.4 percent) than for Freddie Mac (18.7 percent), and this was offset only slightly by the higher special affordable share for Freddie Mac's multifamily units (62 percent) than for Fannie Mae's multifamily units (59 percent).

Underserved Areas Goal. Unlike the low- and moderate-income and special affordable goals, where Fannie Mae's performance exceeded Freddie Mac's performance, Freddie Mac outperformed Fannie Mae on the underserved areas goal in 2005, 42.3 percent to 41.4 percent. Both GSEs exceeded the goal of 37 percent by wide margins.

The primary reason for Freddie Mac's superior performance in 2005 is that the underserved area share of its single-family purchases exceeded the corresponding share for Fannie Mae by 2 percentage points. The single-family/multifamily breakdowns of the GSEs' business were much less important for this goal than for the two income-based goals, because for both GSEs, the difference between the shares of multifamily and single-family units located in underserved areas were less than for the two income-based goals. That is, for Freddie Mac, 96 percent of multifamily units and 48 percent of single-family units qualified for the low-mod goal in 2005, a difference of nearly 50 percentage points. The same pattern prevailed for the special affordable goal, where 62 percent of Freddie Mac's multifamily units, but only 19 percent of single-family units qualified in 2005. But the difference was much smaller for the underserved areas goal—56 percent of Freddie Mac's multifamily units and 40 percent of its single-family units qualified in 2005. The goal-qualifying shares for Fannie Mae were 62 percent of multifamily units and 38 percent of single-family units.

H. Changes in Goal Counting Rules

As discussed above, official GSE goal performance figures for 2001-03 are not readily comparable with those for the period prior to 2001 or for 2004-2005. The most important reasons for this lack of comparability are the "bonus points" that were in effect for both GSEs and the "temporary adjustment factor" that was in effect for Freddie Mac during the 2001-03 period. Another reason for the lack of comparability between 2001-03 performance numbers and pre-2001 goal performance number is a change in counting rules that took effect in 2001.

Changes Taking Effect in 2001. In the pre-2001 period, if a GSE lacked data on rent for rental units or on borrower income for owner-occupied units in properties whose mortgages it purchased, such units were included in the denominator, but not in the numerator, in calculating goal performance. Since some of these units likely would have qualified for one or more of the housing goals, this rule lowered goal performance. Under the 2001-03 counting rules, the GSEs were allowed to exclude loans with missing borrower income from the denominator if the property was located in a below-median income census tract. This exclusion was subject to a ceiling of 1 percent of total owner-occupied units. The GSEs were also allowed to exclude rental units with missing rental information from the denominator in calculating goal performance. Alternatively, they could develop "proxy rents" for multifamily units, up to a maximum level, and use such rents in measuring goal performance.

Changes Taking Effect in 2004 and 2005. As discussed, the 2001-03 "bonus points" and "temporary adjustment factor" expired at the end of 2003, leading to non-comparability between pre-2004 and post-2003 goal performance. The "missing data" provisions first instituted in 2001 were also in effect for 2004. However, some additional changes in the treatment of missing data were adopted in the November 2004 final rule. These changes liberalized the treatment of missing data somewhat further, but did not have a significant impact on goal performance in

2005.[27]

I. Conclusions

This section has analyzed the GSEs' performance on the housing goals and subgoals over the 2001-05 period in some detail. To summarize:

- Fannie Mae passed all of the goals in all years.

- Freddie Mac fell slightly short on the underserved areas (geographically-targeted) goal in 2002, but passed it other years, and passed the low- and moderate-income and special affordable goals in all years.

- Fannie Mae surpassed the 2005 special affordable and underserved areas home purchase subgoals, but fell short on the low- and moderate-income home purchase subgoal.

- Freddie Mac passed all of the home purchase subgoals in 2005.

- Both GSEs surpassed all of the dollar-based special affordable multifamily subgoals by wide margins in all year.

One question not analyzed in this report is whether or not the GSEs' performance on the housing goals increased relative to the goal-qualifying shares of loans originated in the primary mortgage market in recent years. Such an analysis for the 2001-03 period, based on data submitted by primary market lenders in accordance with the Home Mortgage Disclosure Act (HMDA), was contained in HUD's November 2004 final rule, which established the goals for 2005-08, and the Department is updating that analysis to examine this question for 2004-05.[28]

[27] These changes are explained in the *Federal Register*, November 2, 2004, Section 81.15, pages 63641-42.

[28] *Federal Register*, November 2, 2004, pages 63579-63887.

IV. Loan, Borrower, and Neighborhood Characteristics of Mortgages on One-Family Owner-Occupied Properties Purchased by the GSEs, 2001-2005

The GSEs have stepped up their presence in both the multifamily and single-family rental markets in recent years, but they still do the bulk of their business in loans on one-family owner-occupied housing. Such loans are generally less likely to qualify for the housing goals than loans on other types of properties, but they do account for the majority of units qualifying for each of the housing goals. Accordingly, this chapter analyzes trends in loan and borrower characteristics for these mortgages.

As reported above in **Table 1**, owner-occupied one-unit mortgages accounted for 78 percent and 76 percent of the total units in properties whose mortgages were purchased by Freddie Mac and Fannie Mae, respectively, in 2005. Because they play such an important role in the GSEs' activities, and because more data are available on these loans than on mortgages for rental properties, this section analyzes these purchases in some detail. It also compares the goal-qualifying shares of the GSEs' purchases of home purchase and refinance mortgages, seasoned mortgages, and mortgages on properties in metropolitan and nonmetro areas. In analyzing 2001-05 trends, the analysis focuses on the GSEs' acquisitions of home purchase loans only, because of the importance of homeownership to American families.

This section analyzes a number of characteristics of the mortgages purchased by the GSEs on one-family owner-occupied properties. **Section A** presents information on the relationship between goal performance and various mortgage characteristics, including purpose of the mortgage, loan seasoning, type of seller, and property location. Since home purchase and refinance mortgages often have very different characteristics, **Section B** analyzes these two types of loans separately by borrower income and race and by loan-to-value (LTV) ratio. **Section C** continues this analysis, looking at neighborhood characteristics for home purchase and refinance loans. **Section D** presents trends in key characteristics of home purchase loans only, for 2001-05.

Section E presents information about the impact of changes in mortgage rates on loan volume and demonstrates that despite these cycles, goal performance on the two income-based goals has generally improved steadily over the 2001-05 period. **Section F** provides a cross-tabulation of home purchase mortgages by race and income in 2005, and **Section G** demonstrates that lower-income borrowers may be less likely to refinance their mortgages when it is most advantageous to do so.

A standard set of definitions is used to describe borrowers and the metropolitan area census tracts where mortgaged properties are located. These definitions are provided in **Table 3**.

A. Goal Performance and Various Loan Characteristics

This section discusses relationships between goal performance and various characteristics of the GSEs' purchases of mortgages on one-family owner-occupied properties. Specifically, it analyzes the breakdowns between home purchase and refinance mortgages, between purchases of seasoned and current year mortgages, and between loans in metropolitan and nonmetropolitan areas.

1. Goal Performance and Loan Purpose. Almost all of the mortgages acquired by the GSEs are for the purchase of a home or the refinancing of an existing mortgage; second mortgages comprise a small percentage of their acquisitions[29]. Over the **2001-05** period, Fannie Mae's acquisitions of home purchase mortgages ranged between 1.4 and 1.9 million, and Freddie Mac's acquisitions ranged between 1.0 and 1.4 million, as shown in **Table 4**.

Each GSE's volume of refinance mortgages has been more cyclical than their acquisitions of home purchase mortgages. Following the then-record refinance year of 1998, Fannie Mae's purchases of refinance mortgages fell to about 500,000 mortgages in 2000; this was then followed by the 2001-03 refinance wave, with its purchases of refinance loans peaking at 6.4 million in 2003. As the refi boom tailed off, Fannie Mae's refinance mortgage acquisitions fell by about 75 percent, to 1.6 million in 2005. A similar pattern of refinance mortgage acquisitions prevailed over this period for Freddie Mac.

Lending volume in the mortgage market varies significantly from year to year, primarily in response to changes in mortgage rates. Home purchase loan volume generally rises when interest rates fall, making housing more affordable. But the largest impact of interest rate declines on mortgage volume is a sharp increase in the number of mortgages taken out in order to refinance existing mortgages. Thus if refinance mortgages are less (or more) likely to qualify for the housing goals than home purchase mortgages, housing goal performance will decrease (or increase) in a heavy refinance year, other factors equal. As discussed next, the breakdown between home purchase and refinance loans had a significant impact on goal performance in 2003-05. A longer term analysis of this question is contained in **Section E**.

Loan purpose and special affordable goal performance in 2003-05. In the record refinance year of 2003, 17.8 percent of Fannie Mae's home purchase loans (and 14.8 percent of Freddie Mac's home purchase loans) qualified for the special affordable goal, but only 13.1 percent of its refinance loans (and 10.8 percent of Freddie Mac's refinance loans) qualified. But this pattern did not apply in some other years, because lower-

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[29] Information provided in Table 9 of the GSEs' Annual Housing Activity Reports indicates that Fannie Mae purchased 22,039 second mortgages in 2005 (including 20 FHA Title I second mortgages), but such mortgages amounted to only 0.7 percent of its purchases. Freddie Mac purchased 66,604 second mortgages in 2005 (but no Title I mortgages), about 1.9 percent of it total mortgage purchases. Prior to 2005, Fannie Mae was more active in the second mortgage market than Freddie Mac, but this pattern changed in 2005.

income borrowers are more likely to refinance their mortgages in order to draw on some of their home equity ("cash-out refinancings") than higher-income borrowers, who are more likely to refinance to obtain lower interest rates or to shorten the term of their mortgages ("rate and term refinancings"). Thus refinancings by lower-income borrowers are not as concentrated in low-interest rate years as "rate-driven" refinancings by higher-income borrowers. This apparently explains the fact that by 2005, a higher-interest rate year, refinance loans were more likely to qualify for the special affordable goal than home purchase loans for Fannie Mae (18.5 percent vs. 17.0 percent), though this was not the case for Freddie Mac. Thus purchases of refinance loans increased Fannie Mae's performance on this goal in 2005.

A pattern similar to that for the special affordable goal prevailed with regard to the low- and moderate-income goal in 2003 and 2005. Trends in the shares of single-family home purchase and refinance mortgages qualifying for the three housing goals over the 2001-2005 period are presented in **Table 5**, with the figure for the GSE with the higher percentage of its loans qualifying the goal shown in bold.

Loan purpose and underserved areas goal performance in 2003-05. The home purchase-refinance breakdown of the GSEs' mortgage purchases also had an effect on the GSEs' performance on the underserved areas goal in 2003-05. For Fannie Mae in 2003, 27.8 percent of its home purchase mortgages qualified for this goal, but only 24 percent of its refinance loans qualified, and the results for Freddie Mac were similar. But by 2005, this pattern was reversed, with the share of refinance loans in underserved areas exceeding the share of home purchase mortgages in underserved areas, for both GSEs. Thus the breakdown of GSE mortgage acquisitions between home purchase mortgages and refinance mortgages has a major impact on GSE housing goal performance all of the affordable housing goals.

2. Goal Performance and Loan Seasoning. Some of the loans acquired by the GSEs in 2005 were originated in prior years. Such loans are referred to as "seasoned loans." There are several advantages to the GSEs from purchasing seasoned loans: principal payments and property appreciation may have reduced the effective loan-to-value ratio; some loans with large loan amounts which may have been ineligible for purchase in previous years are now eligible, due to the increase in the GSEs' conforming loan limit; and the borrower will have established a payment history. As shown in **Table 4**, the seasoned share of GSE loan purchases has varied in recent years, increasing from an average of about 15 percent in 2001 to about 20 percent in 2002, before falling to 17-18 percent in 2005. [30] Seasoned loans which meet HUD's income or location criteria count toward the GSEs' housing goals, because such purchases may provide funds for portfolio lenders to originate additional goal-qualifying loans.

[30] One disadvantage of this definition of "seasoned mortgages" is that it counts loans originated late in one year which are still "in the pipeline" until they are acquired by the GSEs early in the subsequent year as seasoned loans. Another definition of "seasoned mortgage" is a loan that was originated more than 365 days prior to acquisition by a GSE. This definition excludes this "pipeline effect," but the broad conclusions are essentially the same under either definition. (This paper does not use the alternative definition because the data on loan origination and acquisition dates have been designated as proprietary by the GSEs.)

Seasoned mortgages and special affordable goal performance in 2005. Purchases of seasoned loans increased both GSEs' performance under the special affordable goal in 2005. Specifically, 17 percent of each GSE's purchases of mortgages originated in 2005 on owner-occupied one-unit properties counted toward this goal. Seasoned mortgage purchases increased Fannie Mae's performance on this goal in 2005, because 21 percent of its seasoned mortgages qualified for the goal. A similar pattern prevailed for Freddie Mac, with more than 18 percent of its pre-2005 mortgages qualifying for the special affordable goal. A similar pattern prevailed for Fannie Mae on the *low- and moderate-income goal*, but the low-mod shares for Freddie Mac in 2005 were about the same for both current year and previous year mortgages.

Seasoned mortgages and underserved areas goal performance in 2005. Seasoned loan purchases increased both GSEs' performance on the underserved areas goal in 2005. For both enterprises, and especially for Fannie Mae, seasoned loans were somewhat more likely to have financed properties in underserved areas than current year loans in 2005. Thus seasoned loan purchases raised overall goal performance on this goal for both GSEs, but in both cases the net effect did not exceed one percentage point.

3. Goal Performance and Type of Seller. As also shown in **Table 4**, mortgage companies accounted for more than 50 percent of the loans sold to Fannie Mae in each of the years from 2001 through 2005, with similar figures for Freddie Mac for 2001 through 2003. However, beginning in 2004 there was a significant shift in the source of Freddie Mac's mortgages toward banks and other sources. This may reflect increased purchases of private-label mortgage-related securities by Freddie Mac—according to OFHEO, such purchases rose from $24 billion in 2001 to $180 billion in 2005, as Freddie Mac built its portfolio of such securities from $36 billion at the end of 2000 to $231 billion at the end of 2005.[31]

Overall, 46 percent of mortgages on owner-occupied one-unit properties sold to Fannie Mae qualified for the *low- and moderate-income goal* in 2005 and 18 percent qualified for the *special affordable goal*. The goal-qualifying shares did not vary greatly between types of sellers for these two goals for Fannie Mae. For the underserved areas goal, 35 percent of all loans qualified, but a somewhat higher share of loans obtained through Fannie Mae's purchases of mortgage-related securities qualified for the undeserved areas goal, though these accounted for a relatively small portion of Fannie Mae's total purchases.

A different pattern prevailed for Freddie Mac, where purchases of mortgage-related securities played a major role in achieving its goal performance in 2005.[32] Such

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[31] OFHEO, *Mortgage Markets and the Enterprises in 2005*, September 2006, Tables 11b and 15b. Fannie Mae also increased its purchases of private-label mortgage-related securities, from $3.5 billion in 2001 to $91 billion in 2004, but such purchases declined to $41 billion in 2005 (Table 1b). As a result, Fannie Mae's portfolio of such securities increased from $34 billion at the end of 2000 to $101 billion at the end of 2004, before declining to $83 billion at the end of 2005 (Table 5b).

[32] In this case, purchases of "mortgage-related securities" refers to purchases of mortgages from sources

purchases accounted for a much larger share of their total purchases than they did for Fannie Mae, and the goal-qualifying shares were much higher for all of the goals than they were for other purchases. For example, 46 percent of Freddie Mac's overall purchases of these types of mortgages qualified for the *low- and moderate-income* goal, but the goal-qualifying shares were 57 percent for purchases of mortgage-related securities and 42 percent for purchases of mortgages from mortgage companies, banks, thrifts, and credit unions. A similar pattern prevailed for Freddie Mac's performance on the *special affordable* goal.

Freddie Mac relied on purchases of mortgage-related securities to the greatest extent for achieving HUD's *underserved areas* goal in 2005. That is, 36 percent of Freddie Mac's overall purchases of these types of mortgages qualified for this goal, but the goal-qualifying shares were 52 percent for purchases of mortgage-related securities, and only 30 percent for purchases of mortgages from mortgage companies, banks, thrifts, and credit unions.

4. Goal Performance and Property Location. Fannie Mae and Freddie Mac differ somewhat in the shares of their mortgage purchases for properties in various locations, as shown in **Table 6**. In 2005, non-metropolitan areas (defined by HUD to include micropolitan areas, as well as counties outside both metro and micropolitan areas) accounted for about 15 percent of Freddie Mac's purchases, compared with about 12 percent of Fannie Mae's purchases. The regional distributions of the GSEs' purchases reported in **Table 6** largely reflect the distribution of primary market originations. Three Census regions accounted for the majority of total business for both agencies in 2005: the East North Central, South Atlantic, and Pacific regions. The GSEs exhibited a mixed pattern of increases and declines in regional shares of business between 2001 and 2005: both increased their shares in the South Atlantic and Mountain regions, and both further decreased their shares in the East North Central region, and the Pacific region's share increased for Freddie Mac but decreased for Fannie Mae over this period.

Property location and low- and moderate-income goal performance. Somewhat different definitions apply in determining whether GSE mortgage purchases in metropolitan and nonmetropolitan areas qualify for the low- and moderate-income housing goal. A mortgage on an owner-occupied one-unit property in a metropolitan area qualifies for the low- and moderate-income goal if the income of the borrower is no greater than median income for the metropolitan area. The same definition applies for nonmetro areas, except that borrower income is compared with the greater of median family income for the county *or* the nonmetropolitan portion of the state.[33]

For Freddie Mac GSEs, mortgages on properties in metropolitan areas were more likely to qualify for the low- and moderate-income goal in 2005 than mortgages on

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other than the traditional sources, which are mortgage companies, banks, thrifts, and credit unions.

[33] Data on median family income for all metropolitan areas and for the nonmetropolitan portions of the states are published annually by HUD's Office of Policy Development and Research.

properties in nonmetro areas. The opposite pattern prevailed for Fannie Mae for this goal, though for both GSEs the differences between the low-mod shares of metro and nonmetro mortgages were not great. This represents a change from earlier years, when metro mortgages were more likely to qualify for this goal than nonmetro mortgages, which suggests that the GSEs may have been doing a better job in recent years in funding mortgages for lower-income families in nonmetro areas. Similar conclusions apply to the special affordable shares of mortgages acquired by the GSEs in 2005

Property location and underserved areas goal performance. A mortgage on a property in a metropolitan area qualifies for the underserved areas goal if the property is located in a low-income or high-minority census tract. Specifically, an underserved census tract is one in which tract median income is no greater than 90 percent of area median income, or one in which minorities comprise at least 30 percent of tract population and tract median income is no greater than 120 percent of area median income. The Department's research has found that such tracts generally have high mortgage denial rates and low loan origination rates, thus they are considered to be "underserved areas."

For 2001-04, the Department adopted a county-based approach, rather than a tract-based approach, in defining underserved areas outside of metropolitan areas. The essence of the definition was the same—low-income and high-minority nonmetro counties were considered to be underserved—but the nonmetro definition of underserved areas was somewhat more inclusive.[34] Beginning in 2005, HUD defined nonmetro underserved areas at the tract level, as has always been done for metro areas, rather than at the county level.

For Fannie Mae, mortgages in nonmetro areas were somewhat more likely to qualify for the underserved areas goal in 2005 than mortgages on properties in metropolitan areas, though this was not the case for Freddie Mac. But on this goal also, the differences in goal-qualifying shares between metro and nonmetro areas were less in 2005 than they were in earlier years.

B. Borrower and Loan Characteristics by Loan Purpose, 2001-2005

As discussed in the preceding section, there are systematic differences between home purchasers and borrowers who are refinancing existing loans, and these differences may have significant effects on the performance of the GSEs relative to the housing goals. This section extends that analysis by presenting data separately for home purchase and refinance mortgages by loan and borrower characteristics. Data for 2005 is shown in

[34] Specifically, for 2001-04 a nonmetro county was considered an underserved area if (1) county median income was no greater than 95 percent of the greater of state or national nonmetro median income, or (2) county median income was no greater than 120 percent of the greater of state or national nonmetro median income and minorities comprised at least 30 percent of county population. These same conditions applied for 2005, except that nonmetro underserved areas were determined at the census tract level rather than the county level.

Table 7; corresponding data for 2001-04 is shown in **Tables B.5 through B.8** in Appendix B. These update previous analyses prepared by HUD for earlier years. Most of this discussion focuses on home purchase mortgages, but corresponding data for refinance mortgages in shown in all tables.

Borrower Income. Over the 2001-05 period, about 55 percent of the GSEs' home purchase mortgages on owner-occupied one-unit properties went to borrowers with incomes above area median income (AMI). This is somewhat below the average of approximately 65 percent in the 1993-97 period reported in two earlier studies, and also below the average of about 60 percent in the 1998-2000 period.[35]

Since 2000, both GSEs have increased their purchases of loans from very low-income (VLI) borrowers. In 1999-2000, about 11 percent of Fannie Mae's home purchase loans went to VLI borrowers; this share rose to 13 percent in 2001 and an average of nearly 16 percent for 2002-04, before declining below 14 percent as interest rates rose in 2005. Freddie Mac's very low-income share was 11-12 percent in 1999-2000, but rose to an average of more than 13 percent for 2002-04 and to 14 percent in 2005, surpassing Fannie Mae's share for this category. However, through 2004 both GSEs' purchases of such loans were below the VLI shares of the primary conventional mortgage market.[36]

Race/Ethnicity. More than 80 percent of home purchase loans purchased by the GSEs in 1998-2000 were made to (non-Hispanic) white borrowers. As minorities have taken out more mortgages in recent years, this share fell below 80 percent for both GSEs in 2004 and 2005. With regard to minorities, back in 1993 only 2-3 percent of the GSEs' home purchase mortgages went to African American borrowers; this share increased modestly, to about 3.5 percent for the GSEs in 1998-2000, and rose further to 5.9 percent for Freddie Mac and 5.0 percent for Fannie Mae last year. The 2005 shares represented a reversal of the 2001-04 pattern, when African Americans' share of loans purchased by Fannie Mae was consistently higher than their share of loans purchased by Freddie Mac.[37]

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[35] Paul B. Manchester, Sue George Neal, and Harold L. Bunce, *Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac, 1993-95*, Housing Finance Working Paper No. HF-003, March 1998; Paul B. Manchester, *Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac: 1996-97 Update*, Housing Finance Working Paper No. HF-006, August 1998; and Paul B. Manchester, *Goal Performance and Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac, 1998-2000*, Housing Finance Working Paper No. HF-015, May 2002.

[36] Comparisons between the primary market and the GSEs in 1992-2000 are contained in Harold L. Bunce, *The GSEs' Funding of Affordable Loans: A 1999 Update,* Housing Finance Working Paper No. HF-012, December 2000, and *The GSEs' Funding of Affordable Loans: A 2000 Update,* Housing Finance Working Paper No. HF-013, April 2002.

[37] More information on the GSEs' purchases of loans made to African-Americans is contained in Harold L. Bunce, *An Analysis of GSE Purchases of Mortgages for African-American Borrowers and their Neighborhoods,* Housing Finance Working Paper No. HF-011, December 2000.

The Hispanic shares of both GSEs' purchases have increased over time, and rose sharply to record levels of 9.9 percent for Fannie Mae and 7.6 percent for Freddie Mac in 2005, up from 7.0 percent and 5.7 percent respectively in 2001. Fannie Mae continues to outdistance Freddie Mac in the Hispanic share of its home purchase loans. This may reflect differences in the geographical distribution of the GSEs' business, most notably in that California, with a Hispanic population of 32 percent in 2000 (second only to New Mexico, with 42 percent), accounted for 15 percent of units financed by Fannie Mae in 2005, but 12 percent of units financed by Freddie Mac.

First-time and Repeat Buyers. As housing has become more affordable, first-time homebuyers have played a more significant part in the mortgage market. These are typically people in the 25-34 year-old age group who purchase modestly-priced homes. Although the proportion of the population in this group decreased from 18 percent in 1985 to 15 percent in 1996**,** first-time homebuyers increased from about 40 percent of all buyers in the 1980s to 45 percent or more in recent years.[38] The GSEs lag the total mortgage market in support for first-time homebuyer loans, as many such buyers take out loans insured by the Federal Housing Administration (FHA). In **2001-03**, approximately 25-26 percent of each GSE's home purchase loans were for first-time homebuyers (with this share jumping sharply for Fannie Mae to 36-37 percent for **2004-05**), but this was well below the 80 percent of FHA-insured home purchase loans for first-time homebuyers in recent years.[39]

Loan-to-Value Ratios. In analyzing loan-to-value ratios (LTVs) on mortgages purchased by the GSEs, it is essential to distinguish between home purchase mortgages and refinance mortgages. As shown in **Table 7**, on average 86 percent of refinance mortgages had an LTV of 80 percent or less in **2005** (that is, these buyers made down payments of at least 20 percent), but only about 75 percent of home purchase mortgages had LTVs of 80 percent or less. The share of Freddie Mac's home purchase mortgages with high LTVs (those with ratios over 95 percent) was 6 percent in **2000**, but this fell to about 4-5 percent in 2001-03, 2.2 percent in 2004, and 1.3 percent in **2005**. The share of Fannie Mae's home purchase mortgage with LTV ratios over 95 percent has moved in the opposite direction for Fannie Mae, from about 4 percent in **2000** to about 8 percent in 2001-02 and 13-15 percent in **2003-05**. The greater share of high-LTV loans for Fannie Mae than for Freddie Mac in recent years may be a major factor behind the higher first-time homebuyer share for Fannie Mae.[40] But the shares of both GSEs' home purchase mortgages with low LTVs (80 percent or less) also rose over this period—for Freddie Mac, from 61 percent in 2001 to 81 percent in 2005, and for Fannie Mae, from 57 percent in 2001 to 69 percent in 2005. Thus there were significant declines in the shares of both

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[38] See Chicago Title, *Who's Buying Homes in America: 1999* for primary mortgage market data on first-time homebuyers.

[39] See "FHA Outlook: Single Family Operations," January 1-15, 2007, on line at www.hud.gov/offices/hsng/comp/rpts/ooe/olcurr.pdf.

[40] Data for 2001-04 are presented in Tables B.5-B.8.

GSEs' home purchase mortgages with LTVs between 80 and 95 percent over this period, as the LTV distribution became increasingly bimodal.[41]

In all years more than 83 percent of refinance mortgages had LTVs of 80 percent or less. By taking out loans with an equity position of at least 20 percent of the home's value, these borrowers save on monthly payments since they do not need to pay premiums for mortgage insurance.

Detailed Data on Loan-to-Value Ratios. Lower income households are constrained in two ways from becoming homeowners. Their incomes limit the monthly mortgage payment for which they can qualify, and they also make it more difficult for them to accumulate a down payment. Thus one would expect more high-LTV (low down payment) loans among lower income families. Comparisons of the distributions of LTVs in **2005** for home purchase mortgages qualifying for the three housing goals and for all home purchase mortgages are contained in **Table 8**. There was a marked discrepancy between the GSEs in the distribution of LTVs in 2005, with Fannie Mae acquiring many more high-LTV loans than Freddie Mac. By housing goal category, for both GSEs, special affordable mortgages had the highest shares of loans with LTVs over 95 percent. Loans qualifying for the low- and moderate-income goal and the underserved areas goal also have disproportionately large shares of high loan-to-value ratios.

As a result of changes made in 2004, HUD's public use data base (PUDB) now contains data by borrower race and borrower income on the LTV distribution of home purchase mortgages, as well as refinance mortgages. Previously the PUDB did not break out the LTV distribution by loan purchase. The distribution of LTVs for home purchase loans by borrower race is contained in **Table 8A**. As indicated, African Americans and Hispanics are most likely to obtain mortgages with LTVs over 95 percent, while Asian and Pacific Islander borrowers are least likely to be in this category. The distribution of LTVs for home purchase loans by borrower income is contained in **Table 8B**. As indicated, borrowers with incomes below 60 percent of AMI are most likely to take out mortgages with LTVs greater than 95 percent, and the prevalence of such loans declines steadily as income increases.

C. Census Tract Characteristics by Loan Purpose, 2001-05

[41] The GSEs are required by their charter acts to have private mortgage insurance or some other form of credit enhancement on loans that they purchase with LTVs greater than 80 percent.

Extensive research has been conducted using Home Mortgage Disclosure Act (HMDA) data and other information on issues of redlining and the extent to which lenders are meeting the credit needs of underserved areas. Such studies have generally shown substantial disparities between mortgage flows in neighborhoods of varying income levels and minority percentages.[42] This section briefly examines the characteristics of the census tracts containing properties with home purchase and refinance mortgages sold to Fannie Mae and Freddie Mac in the 2001-05 period.

Income Level and Minority Composition of Neighborhood. Most mortgages acquired by the GSEs are on properties in low-minority areas and in areas with above average incomes, as shown in **Table 9** for 2005 and **Tables B.9 - B.12** for 2001-04. Specifically, more than half of each GSE's loans in this period were for properties in census tracts in which minority residents comprised less than 30 percent of the population, and 15 percent or fewer were in low-income tracts in each year. In 2005 the distribution of loans by tract income was similar for the two GSEs. This similarity also prevailed for the distribution of loans by tract minority share for both home purchase and refinance mortgages. However, Freddie Mac was somewhat more likely than Fannie Mae to finance loans in tracts which were both high-minority and low-income in 2005.

Underserved Areas. HUD was directed by the 1992 GSE Act to expand and, as appropriate, modify the basis for the geographically-targeted goal from central cities, the focus during the 1993-95 transition period, to include rural areas and other underserved areas for subsequent years. After a considerable amount of research on access to mortgage credit, the Department determined that the definition most consonant with Congressional intent included low-income and high-minority metropolitan census tracts and nonmetro counties, because such neighborhoods generally have low mortgage origination rates and high loan denial rates—both are indicators of difficulty in obtaining mortgage credit. Thus the geographically-targeted goal has been specified in this manner since 1996. The shares of home purchase and refinance mortgages in underserved areas are shown in **Table 9** for 2005 and **Tables B.9 – B.12** for 2001-04.

Although the goals were not established on this basis for 1993-95, sufficient information is available from the data supplied by the GSEs to measure their purchases in underserved areas during this period, and data for 1993-2000 was presented in previous Working Papers. The GSEs' acquisitions of home purchase loans on properties in underserved areas are shown in **Table 10** for 2001-05. Such loans accounted for about 26 percent of Fannie Mae's purchases in 2001-03, but rose to 32 percent in 2004 and 35 percent in 2005, with about 5 percentage points of the increase reflecting the change from 1990 Census data to 2000 Census data that took effect in 2004. The underserved areas share of Freddie Mac's home purchase loans averaged about 24 percent in 2001-03, but then rose to 30 percent in 2004 and 38 percent in 2005, with the same 5 percentage point effect from the switch to 2000 Census data in 2004.

[42] These studies were reviewed in Appendix B of the Secretary's final rule establishing the GSEs' housing goals for 2005-08, contained on pp. 63752-63797 of the November 2, 2004 Federal Register.

D. Additional Information on 2001-2005 Home Purchase Loans

In measuring goal compliance, all mortgages for both rental and owner-occupied housing, whether for home purchase or refinancing, are taken into account. But given the importance placed on homeownership, this subsection provides further analyses of recent trends regarding home purchase loans for one-unit properties. Trends in key dimensions of the GSEs' acquisitions of such loans are summarized in **Table 10** for the 2000-2005 period. Each statistic measures the shares of such loans for each borrower and neighborhood category, and ratios of Freddie Mac's shares to Fannie Mae's shares for each category are also presented. Seven general patterns emerge:

First, in 2000 the very low-income (VLI) share of Freddie Mac's home purchase loans (13.1 percent) exceeded the corresponding share of Fannie Mae's loans (12.3 percent) for the first time. The VLI shares declined for Fannie Mae and, especially, Freddie Mac in 2001, and Fannie Mae outpaced Freddie Mac in this area for the remainder of the period. These shares increased significantly for both GSEs in 2004, reaching a peak for Fannie Mae at 15.0 percent, and rose further for Freddie Mac in 2005, to a peak of 13.8 percent, while Fannie Mae's share decreased slightly in 2005, to 14.8 percent. These shares are similar to the data in the previous section on GSE performance on the special affordable home purchase subgoal in 2005 (17.0 percent for Fannie Mae and 17.7 percent for Freddie Mac), which includes very low-income borrowers and low-income borrowers in low-income areas, although the subgoal pertains to mortgage purchases in metropolitan areas only.[43]

Second, gains were made in various areas of targeted lending during the 2000-2005 period, with records established for several lending categories. For example, the share of both GSEs' home purchase mortgages reached record levels for African Americans and also for Hispanics. The share of loans in high-minority tracts also reached a record level for Fannie Mae (30.7 percent) in 2004 and for Freddie Mac (30.1 percent) in 2005, though this was due in significant part to the increase in the share of high-minority tracts from 27.5 percent in the 1990 census to 38.3 percent in the 2000 census.[44]

Third, with regard to minority borrowers, African Americans' share of Fannie Mae's home purchase loans rose was steady between 2000 and 2003, rose sharply in 2004, and decreased slightly in 2005. A similar pattern prevailed for Hispanic borrowers for Fannie Mae over the 2000-2005 period. There was a decrease in the share of Freddie Mac's home purchase loans for African-Americans in 2001, followed by a leveling off, before a sharp increase in 2004-05, so that Freddie Mac outpaced Fannie Mae in this area

[43] Fannie Mae outpaced Freddie Mac in 2005 in the share of its home purchase mortgages for very low-income borrowers, 14.8 percent to 13.8 percent, but Freddie Mac outperformed Fannie Mae on the special affordable home purchase subgoal, 17.7 percent to 17.0 percent, because a higher share of home purchase mortgages acquired by Freddie Mac were for low-income families in low-income areas.

[44] In the 1990 census, 16,847 of the 61,325 census tracts were high-minority tracts; in the 2000 census, there were 66,144 census tracts, including 25,252 high-minority tracts.

last year. A similar pattern existed for the share of Freddie Mac's home purchase loans for Hispanics—this fell in 2001, leveled off in 2002-03, and then rose in 2004-05, though it still lagged below the share for Fannie Mae. To some extent, differences between the GSEs in the minority shares of their home purchase loans may reflect differences in the geographic distributions of their business.

Fourth, the first-time homebuyers' share of home purchase mortgages acquired by Freddie Mac has generally remained in the 25-29 percent range in recent years. First-time homebuyers' share of home purchase mortgages acquired by Fannie Mae generally exceeded the corresponding share for Freddie Mac in the 1990s, but it was slightly below the comparable figure for Freddie Mac in 2000-2002, and the shares were the same for both enterprises in 2003. A substantial disparity between the GSEs arose in this area in 2004, resulting from a 12-point jump and in the first-time share for Fannie Mae and a drop in this share for Freddie Mac. The reasons for this disparity are not known. The gap between the enterprises in this first-time homebuyer share shrank somewhat in 2005, reflecting a modest decline for Fannie Mae and a significant gain for Freddie Mac.

Fifth, the disparities between Fannie Mae and Freddie Mac in the shares of their loans for geographic areas targeted by HUD's housing goals that existed in the late-1990s largely disappeared by 2000, and Freddie Mac overtook Fannie Mae in several categories by 2005. For example, the shares of both GSEs' loans for properties in low-income census tracts were the same in 2002; both enterprises showed subsequent large gains, but Freddie Mac outperformed Fannie Mae on this measure in 2005. Looking at another measure, Fannie Mae led Freddie Mac with regard to the share of its loans on properties in high-minority census tracts over the 2000-2004 period, but Freddie Mac moved ahead in this category also by 2005. And finally, since underserved areas are defined as low-income and high-minority tracts, Freddie Mac also outpaced Fannie Mae by this measure in 2005.

Finally, clear patterns emerge for most of the categories of lending shown in **Table 10**, as shown by the "Freddie Mac/Fannie Mae ratios." The shares of Freddie Mac's loans for almost all categories were below the corresponding shares for Fannie Mae's loans in 2001. This divergence continued for most measures over the next three years, as shown by these ratios in 2004, and actually widened for first-time homebuyers in that year. But in 2005, Freddie Mac outperformed Fannie Mae in four categories, especially in the share of home purchase loans for African Americans and for properties in low-income census tracts. However, the pattern was reversed for very low-income buyers, first-time buyers, and Hispanics. But despite these changes in relative shares over the period, the clearest finding in **Table 10** is that both enterprises made significant gains in every category.

E. Interest Rate Cycles and Housing Goal Performance

Mortgage rates have often changed dramatically over the years. After reaching a record high of 15.3 percent in 1982, there was a general decline in rates over the subsequent decade, to a low of 7.1 percent in 1993.[45] Variations in mortgage rates were fairly small in the 1990s in comparison with the swings in previous years. Then, as shown in **Table 11**, rates fell steadily from 8.0 percent in 2000 to a low of 5.7 percent in 2003, before rising modestly to 5.9 percent in 2005.[46]

These swings in interest rates have caused major changes in primary mortgage market activity, especially in the volume of refinance mortgages. Data compiled in accordance with the Home Mortgage Disclosure Act (HMDA) indicate that conventional home purchase mortgage volume has risen steadily in recent years, from 3.8 million loans in 2000 to *[3.9 million loans in 2001, 4.2 million loans in 2002, 4.8 million loans in 2003, 5.1 million loans in 2004, and]* 5.6 million loans in 2005. However, refinance mortgage volume has varied widely, increasing from 2.4 million loans in 2000 to *[7.3 million loans in 2001, 9.7 million loans in 2002, and]* 14.2 million loans in 2003, before declining to 6.8 million loans in 2004 and 6.2 million loans in 2005, as mortgage rates increased from the low levels reached in 2003. As a result, the refinance share of the conventional mortgage market rose steadily, from 38 percent in 2000 to *[65 percent in 2001, 70 percent in 2002, and]* 75 percent in 2003, before declining to 57 percent in 2004 and 53 percent in 2005.

These primary mortgage market patterns have been reflected in total loan volume for owner-occupied one-unit properties for Fannie Mae and Freddie Mac, as shown for each GSE in **Table 11**. The two GSEs combined funded 3.1 million such loans in 2000. Volume then rose steadily to 6.7 million loans in 2001, 9.1 million loans in 2002, and peaked at 13.2 million loans in 2003, before declining to 6.7 million loans in 2004 and 6.2 million loans in 2005.

Despite these changes in the volume of the GSEs' refinance and total home mortgages, the shares of both GSEs' total purchases of mortgages on owner-occupied one-unit properties qualifying for the special affordable goal generally increased over the 2000-05 period, as also shown in the last columns of **Table 11.**

To a significant extent, this pattern of steady improvement in the shares of the GSEs' core business (mortgages on owner-occupied one-unit properties) for lower income borrowers reflects corresponding trends in the primary mortgage market. The primary market gains were due in part to more flexible underwriting and to stepped up activity by lenders under the Community Reinvestment Act (CRA), as well as to a sustained period of low interest rates and strong income growth. But in 2005 both GSEs showed continued increases in the shares of their mortgages qualifying for the low- and moderate-income goal, and Freddie Mac showed an increase in the share of its mortgages

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[45] Interest rates reported in this study are based on the monthly Mortgage Interest Rate Survey (MIRS) conducted by the Federal Housing Finance Board. This provides the average effective rate for conventional home purchase mortgages for new and existing homes, where the effective rate is the average contract rate plus initial fees and charges, amortized over a 10-year period.

[46] The average effective rate has generally increased in 2006, to 6.6 percent for the first 10 months of the year.

qualifying for the special affordable goal, despite the fact that the corresponding shares of mortgages originated in the primary market decreased between 2004 and 2005. This record indicates that in 2005 the enterprises responded to the income-based housing goals and subgoals in affirmative ways, rather than simply reflecting primary mortgage market trends.

Despite these general gains in the shares of the GSEs' core business qualifying for these two income-based goals and subgoals, overall performance on the goals has varied somewhat more over the period. That is, in addition to the GSEs' core business involving loans on owner-occupied 1-unit properties, they also purchase many loans on rental properties, as discussed above. Overall performance on the housing goals depends on the mix of the GSEs' purchases by property type (owner-occupied one-unit properties, single-family rental properties, and multifamily properties), and on the goal-qualifying shares of all three types of properties.

F. Cross-tabulations of the GSEs' Home Purchase Mortgages by Race and Income in 2005

The tabulations in **Table 10** presented data on the shares of home purchase loans acquired by the GSEs for African-Americans, Hispanics, and very low-income borrowers in 2001-2005. A more detailed analysis of these data is presented in **Table 12**, which provides a cross-tabulation of home purchase loans for the two GSEs by race/ethnicity and income for 2005. This table is useful for comparing the borrower income characteristics of the loans for minorities purchased by Fannie Mae and Freddie Mac.

An earlier analysis similar to that contained in **Table 12** of loans purchased by Freddie Mac and Fannie Mae indicated the compounding effects of Freddie Mac's under representation in lending for lower-income and minority families at that time.[47] It found, for example, that Freddie Mac accounted for 40 percent of all loans purchased by the GSEs in that year, but only 34 percent of GSE loans to very low-income borrowers, 31 percent of GSE loans to African-Americans, and just 22 percent of GSE loans to very low-income African-Americans. On the other hand, it found that Freddie Mac accounted for 42 percent of GSE loans to Whites with above-median incomes—nearly twice its share of GSE loans for very low-income African-Americans.

As shown in **Table 12**, the wide disparities between the GSEs in support for lending to lower-income and minority borrowers were largely eliminated by 2005. Freddie Mac accounted for 50 percent of total GSE loans in 2005, up from 40 percent in 1997. But Freddie Mac also accounted for 51 percent of GSE loans to very low-income borrowers, 52 percent of loans to African-American borrowers, and 54 percent of loans to very low-income African-American borrowers. Freddie Mac accounted for 42 percent of GSE loans to very low-income Hispanic borrowers in 2005. Thus Freddie Mac accounted for a disproportionately large share of loans to low-income African-Americans

[47] Manchester (1998), Table 8, page 29.

(and Asian Americans), while Fannie Mae accounted for a disproportionately large share of loans to low-income Hispanics. For minorities as a whole, this cross-tabulation confirms that there has been a substantial convergence between the GSEs in their purchases of loans for low-income and minority families in recent years.

G. Refinance Loans By Income Level, 2001-05

Borrowers typically refinance their mortgages in order to lower the interest rate on their loans, to change the term (duration) of the mortgage, or to undertake "cash-out refinancings," in which the new loan amount exceeds the unpaid principal balance on their previous loan. Under a "cash-out refi" a borrower taps into the equity on his home to finance other expenses, which may or may not be housing-related. Borrowers whose main goal is a rate reduction generally refinance in low interest rate periods, but "cash-out" refinancers may be less sensitive to interest rate changes. Previous analyses in this Working Paper series found that higher-income borrowers were most likely to refinance their loans when interest rates were lowest.[48] These earlier analyses have been updated for the 2000-05 period in **Table 13**, which presents the distribution of refinance mortgages by income level for this period. This table also presents the average mortgage rate for this period, as reported by the Federal Housing Finance Board—it fell steadily from 7.96 percent in 2000 to 5.73 percent in 2003, before rising gradually to 5.74 percent in 2004 and 5.90 percent in 2005.

Of the borrowers taking out refinance loans over this 6-year period, relatively few (2.4 percent) did so in 2000, the year with the highest average mortgage rate (7.96 percent). But the 2000 share of refinance loans during the period was somewhat higher for the lowest-income borrowers (3.2 percent) and somewhat lower for the highest income borrowers (2.2 percent). This result supports the conclusion of previous analyses that lower-income borrowers are more likely to refinance when mortgage rates are relatively high.

As mortgage rates fell over the 2001-03 period, refinancing by higher-income borrowers increased sharply, and for all borrowers taking out refinance loans during the 2000-05 period, 75.4 percent of those with incomes greater than 100 percent of area median income did so in 2001-03; the corresponding share for those with incomes less than or equal to 60 percent of AMI was 68.2 percent. This also supports the conclusion of previous analyses that higher-income borrowers are more likely to refinance when mortgage rates are relatively low.

However, this period was somewhat different from earlier high-refinance periods in that mortgage rates remained quite low in 2004-05. This meant that lower-income borrowers still benefited from low rates as their share of refinances increased in those

[48] See Manchester (1998), Table 10, page 32, which analyzed the pattern of disparities in the timing of refinancings over the 1993-97 period, and Manchester (2002), Table 13, page 30, which contained a similar analysis for the 1998-2000 period.

years. Specifically, 28.6 percent of all very low-income refinancers during the 2000-05 period took out refinance mortgages in 2004-05; the corresponding share for borrowers with incomes in excess of area median income was 22.5 percent. That is, even though lower-income borrowers took out refinance loans somewhat later than higher-income borrowers, they were not adversely impacted by this delay because of the extended period of low mortgage rates.

Despite this finding, an underlying tendency for lower-income borrowers to refinance their mortgages when it is less advantageous to do so probably still exists. This may reflect better knowledge of the benefits of refinancing among higher-income borrowers, or it may be because lower-income borrowers are more likely to take out "cash-out refis." Whatever the case, it might be advantageous to better educate lower-income homeowners about the gains from refinancing their loans in low-interest rate periods.

TABLES

Table 1

GSEs' Mortgage Purchases by Property Type
For 2005

2005 Purchases

	Fannie Mae				Freddie Mac			
Property Type	UPB[1] ($Million)	Percent of Total Dollars	Units	Percent of Total Units	UPB[1] ($Million)	Percent of Total Dollars	Units	Percent of Total Units
One-Family Owner Properties	$511,828	88.0%	2,975,996	76.3%	$496,957	88.3%	2,957,146	77.6%
Other Single-Family Properties:								
2-4 Unit Owner-Occ. Properties	12,868	2.2%	122,884	3.1%	16,678	3.0%	171,629	4.5%
1-4 Unit Investor Properties	35,170	6.0%	326,593	8.4%	25,417	4.5%	231,115	6.1%
Total Single-Family Properties	559,866	96.2%	3,425,473	87.8%	539,052	95.8%	3,359,890	88.2%
Multifamily Properties	21,844	3.8%	476,249	12.2%	23,522	4.2%	451,502	11.8%
Total Business	$581,710	100.0%	3,901,722	100.0%	$562,574	100.0%	3,811,392	100.0%

Source: GSEs' Annual Housing Activity Reports for 2005, Table 1 and 1A. Data are adjusted for REMIC weights and participations. Corresponding data for 2001-04 is presented in Tables B.1 though B.4.

[1] Unpaid principal balance of mortgages purchased.

Table 2

Overview of the GSEs' Housing Goals and Performance, 2000-2005[1]

Goal[2]	2000	2001	2002	2003	2004	2005	Ratio 2005 to 2000	2000 Goals	2001-2004 Goals	2005 Goals
Low- and Moderate-Income:										
Fannie Mae	49.5%	51.5%	51.8%	52.3%	53.4%	55.1%	1.11	42%	50%	52%
Freddie Mac	49.9%	53.2%	50.5%	51.2%	51.6%	54.0%	1.08			
Ratio[3]	1.01	1.03	0.97	0.98	0.97	0.98	0.97			
Underserved Areas:										
Fannie Mae	31.0%	32.6%	32.8%	32.1%	33.5%	41.4%	1.34	24%	31%	37%
Freddie Mac	29.2%	31.7%	31.0%	32.7%	32.3%	42.3%	1.45			
Ratio[3]	0.94	0.97	0.95	1.02	0.96	1.02	1.08			
Special Affordable:										
Fannie Mae	19.2%	21.6%	21.4%	21.2%	23.6%	26.3%	1.37	14%	20%	22%
Freddie Mac	20.7%	22.6%	20.4%	21.4%	22.7%	24.3%	1.17			
Ratio[3]	1.08	1.05	0.95	1.01	0.96	0.92	0.86			
Special Affordable Multifamily[4]:										
Fannie Mae	$3.79	$7.36	$7.57	$12.23	$7.32	$10.39	2.74	$1.29	$2.85	$5.49
Freddie Mac	$2.40	$4.65	$5.22	$8.79	$7.77	$12.35	5.15	$0.99	$2.11	$3.92

Source: HUD analysis of data submitted by the GSEs. Some results differ from performance reported by the GSEs in their Annual Housing Activities Reports (AHARs).

1 Percentages of dwelling units in properties whose mortgages were purchased by the GSEs that qualified for each goal in 2000-2005, based on HUD's October 2000 rule and November 2004 rule, and goals for 2000-2005. Underserved areas goal for 2000-04 based on 1990 census data, goal for 2005 based on 2000 census data.

2 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 median family income less than or equal to 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 MSA for borrowers in metropolitan areas, and the greater of county or state nonmetro median income for borrowers outside metropolitan areas.

3 Ratio of Freddie Mac goal performance to Fannie Mae goal performance.

4 Performance and goals in billions of dollars. Goals for the 1996-2000 period were 0.8 percent of each GSE's total mortgage purchases in 1994, goals for the 2001-04 period were 1.0 percent of each GSE's average mortgage purchases during the 1997-99 period, and goals for 2005 were 1.0 percent of each GSE's average total mortgage purchases in 2000-02.

Table 2A

Shares of GSEs' Single-Family Home Purchase Mortgages in Metropolitan Areas Qualifying for GSE Housing Goals, 2000-05

Category[1]	2000	2001	2002	2003	2004	2005 HP Subgoal Required	2005 HP Subgoal Actual	Ratio 2005 to 2000
Low- and Moderate-Income:								
Fannie Mae	40.8%	42.9%	45.3%	47.0%	47.0%	45%	44.6%	1.09
Freddie Mac	42.7%	41.3%	44.0%	43.8%	43.3%	45%	46.8%	1.10
Ratio[2]	1.05	0.96	0.97	0.93	0.92		1.05	
Underserved areas:[3]								
Fannie Mae	23.4%	24.4%	26.7%	26.8%	28.4%	32%	32.6%	1.39
Freddie Mac	22.0%	22.3%	25.8%	24.0%	26.7%	32%	35.5%	1.61
Ratio[2]	0.94	0.91	0.97	0.90	0.94		1.09	
Special Affordable:								
Fannie Mae	13.3%	14.9%	16.3%	17.1%	16.8%	17%	17.0%	1.28
Freddie Mac	14.7%	14.4%	15.8%	15.6%	15.2%	17%	17.7%	1.20
Ratio[2]	1.11	0.97	0.97	0.91	0.90		1.04	

Source: For 2000-03, as reported in Table A.11, Federal Register, November 2, 2004, p.63698. For 2004-05, HUD analysis of data submitted by the GSEs.

[1] Abbreviated definitions of categories:

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 median family income less than or equal to 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 MSA for borrowers in metropolitan areas, and the greater of county or state nonmetro median income for borrowers outside metropolitan areas.

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

[3] Data for 2000-04 based on 1990 census; subgoal and performance for 2005 based on 2000 census.

Table 3

Characteristics of Borrowers and Geographic Areas for 2001-2005

Borrower and Tract Income Ranges:	Family (or tract median) income no greater than:
Very low-income	60 percent of Area Median Income (AMI[1])
Low-income	80 percent of AMI
Low- or moderate-income	100 percent of AMI
High-income	In excess of 120 percent of AMI
Geographic Area Minority Population:	Census tracts or counties where minorities account for --
Low-minority tract or county	No more than 10 percent of the population
High-minority tract or county	At least 30 percent of the population
Underserved Areas:	
In metropolitan areas	Census tracts with median income at or below 90 percent of AMI[2] <u>or</u> high-minority tracts with median income at or below 120 percent of AMI
Outside metropolitan areas, 2000-04:	Counties[3] with median income at or below 95 percent of AMI[2] <u>or</u> high-minority counties with median income at or below 120 percent of AMI
Outside metropolitan areas, 2005:	Census tracts with median income at or below 95 percent of AMI[2] <u>or</u> high-minority tracts with median income at or below 120 percent of AMI

[1]For purposes of the borrower and census tract income range definitions, area median income (AMI) means the median income of the metropolitan area, or, for properties located outside of metropolitan areas, the greater of the median income of the county or the nonmetropolitan portion of the State.

[2]For purposes of the underserved areas definitions, area median income (AMI) means the median income of the metropolitan area, or, for properties located outside of metropolitan areas, the greater of the median income of the nonmetropolitan portion of the State or the nonmetropolitan portion of the Nation.

[3]For counties partially contained in a metropolitan area in New England, nonmetropolitan portions of counties.

Table 4

Loan Characteristics of Mortgages Purchased by the GSEs On One-Family Owner-Occupied Properties, 2001-2005

	Fannie Mae					Freddie Mac				
Loan Characteristics	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
Number of Loans	3,906,116	5,205,495	8,328,650	3,945,356	3,035,843	2,809,897	3,936,837	4,848,937	2,775,012	3,173,254
Home Purchase	1,504,665	1,680,498	1,926,833	1,666,118	1,403,872	1,034,663	1,126,460	959,015	1,098,911	1,369,782
Refinance/Other	2,401,451	3,524,997	6,401,817	2,279,238	1,631,971	1,775,234	2,810,377	3,889,922	1,676,101	1,803,472
Percent Home Purchase	38.5%	32.3%	23.1%	42.2%	46.2%	36.8%	28.6%	19.8%	39.6%	43.2%
Percent Refinance/Other	61.5%	67.7%	76.9%	57.8%	53.8%	63.2%	71.4%	80.2%	60.4%	56.8%
Year of Origination										
Current Year	85.3%	80.1%	83.1%	82.5%	82.6%	85.4%	79.8%	86.7%	81.8%	82.7%
Prior year	14.7%	19.9%	16.9%	17.5%	17.5%	14.6%	20.2%	13.3%	18.2%	17.3%
Type of Seller Institution										
Mortgage Company	61.4%	53.8%	56.1%	61.9%	63.0%	68.2%	65.7%	73.4%	36.6%	30.7%
Thrift	18.2%	23.7%	22.8%	15.3%	14.9%	6.2%	4.7%	4.1%	5.4%	10.5%
Bank	12.3%	11.0%	12.6%	13.0%	16.3%	23.7%	19.0%	16.5%	34.8%	25.4%
Other	8.1%	11.5%	8.5%	9.8%	5.9%	1.9%	10.5%	6.0%	23.2%	33.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: HUD analysis of GSE Public Use Data Base loan-level data. Other mortgages include second mortgages and mortgages for which loan purpose is not available.

Table 5

Shares of GSEs' Purchases of Mortgages on Owner-Occupied One Unit Family Properties Qualifying for Housing Goals, 2001-2005

(Figures in bold indicate GSE with higher performance)

	Home Purchase		Refinance[1]		Total		
Year	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Ratio, Freddie Mac /Fannie Mae
Low and Moderate-Income Purchases:							
2001	**41.0** %	39.5 %	**38.9** %	38.2 %	**39.7** %	38.7 %	0.97
2002	**44.6**	41.6	**39.7**	37.5	**41.1**	38.6	0.94
2003	**47.1**	42.3	**40.1**	35.2	**41.6**	36.4	0.87
2004	**47.0**	41.9	**43.3**	41.8	**44.8**	41.9	0.93
2005	45.0	**46.9**	**46.4**	45.3	45.8	**46.0**	1.01
Special Affordable Purchases:							
2001	**14.4** %	13.6 %	**12.3** %	12.1 %	**13.0** %	12.6 %	0.97
2002	**16.3**	14.8	**12.7**	12.2	**13.8**	12.9	0.93
2003	**17.8**	14.8	**13.1**	10.8	**14.1**	11.5	0.82
2004	**18.3**	14.5	**15.4**	14.6	**16.6**	14.5	0.87
2005	17.0	**17.5**	**18.5**	16.5	**17.8**	16.9	0.95
Underserved Areas:							
2001	**25.2** %	23.3 %	**25.4** %	24.5 %	**25.3** %	24.1 %	0.95
2002	**28.2**	26.7	**24.0**	23.6	**25.3**	24.5	0.97
2003	**27.8**	24.0	**24.0**	21.0	**24.8**	21.5	0.87
2004	**28.4**	25.7	**29.1**	27.4	**28.8**	26.8	0.93
2005	32.4	**34.6**	36.5	**37.7**	34.7	**36.4**	1.05

[1] Refinance, second, and other mortgages.

Source: HUD analysis of GSE Public Use Data Base loan-level data.

Table 6

Locational Characteristics of Mortgages Purchased by the GSEs On One-Family Owner-Occupied Properties, 2001-2005

	Fannie Mae					Freddie Mac				
Geographic Location	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
Number of Mortgages	3,905,890	5,196,328	8,283,094	3,827,683	2,975,996	2,801,699	3,867,190	4,801,525	2,616,389	2,957,146
Location										
Metropolitan Areas	87.4%	87.8%	88.6%	87.4%	88.6%	84.1%	85.0%	85.2%	85.4%	88.3%
Non-Metropolitan Areas	12.6%	12.2%	11.4%	12.6%	11.4%	15.9%	15.0%	14.8%	14.6%	11.7%
Census Division										
New England	5.8%	5.9%	6.3%	5.5%	5.4%	4.6%	4.7%	4.8%	4.4%	4.7%
Middle Atlantic	8.9%	9.4%	9.3%	9.5%	9.7%	8.3%	8.6%	10.0%	10.1%	9.4%
East North Central	19.7%	18.6%	17.1%	15.8%	14.4%	23.4%	22.4%	22.1%	18.1%	17.3%
West North Central	6.3%	6.6%	6.6%	6.3%	6.5%	9.7%	9.6%	10.0%	8.3%	7.3%
South Atlantic	18.4%	18.6%	19.1%	20.6%	22.9%	19.7%	19.5%	19.0%	21.0%	22.2%
East South Central	4.4%	4.3%	3.8%	4.3%	4.5%	4.3%	3.9%	4.0%	4.2%	4.2%
West South Central	7.1%	7.1%	6.9%	7.9%	7.7%	5.7%	5.7%	5.8%	7.3%	6.7%
Mountain	9.4%	9.1%	8.8%	9.2%	10.2%	8.8%	8.2%	8.3%	9.0%	10.5%
Pacific	19.3%	20.0%	21.8%	20.4%	17.8%	15.2%	17.0%	15.9%	17.5%	17.3%
Puerto Rico	0.5%	0.5%	0.2%	0.4%	0.7%	0.3%	0.3%	0.1%	0.2%	0.5%
Other/Unknown	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: HUD analysis of GSE Public Use Data Base loan-level data.

Table 7

Borrower and Loan Characteristics of Mortgages Purchased by the GSEs on One-Family Owner-Occupied Properties, 2005

Loan and Borrower Characteristics	Home Purchase		Refinance/Other		Total	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Number of Loans	1,403,872	1,369,782	1,631,971	1,803,472	3,035,843	3,173,254
Loan-to-Value Ratio						
Over 95%	14.6% [1]	1.3%	0.3%	0.1%	7.2%	0.6%
91-95%	7.9%	8.4%	1.4%	2.8%	4.5%	5.1%
81-90%	8.3%	9.7%	9.6%	14.2%	8.9%	12.3%
80% or Less	69.2%	80.6%	88.8%	83.0%	79.3%	82.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income of Borrower(s)						
60% of Area Median or Below	13.6%	14.0%	15.9%	13.7%	14.8%	13.8%
61-100% of Median	28.8%	31.8%	30.5%	32.5%	29.7%	32.2%
Below Area Median	42.4%	45.8%	46.5%	46.3%	44.6%	46.0%
Over 100% of Median	57.6%	54.2%	53.5%	53.7%	55.4%	54.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
First-time Home Buyer [2]	35.7%	29.4%				
Race/National Origin of Borrower						
White	76.5%	77.8%	77.1%	78.4%	76.8%	78.1%
African American	5.0%	5.9%	6.3%	6.7%	5.7%	6.4%
Hispanic	9.9%	7.6%	9.9%	7.8%	9.9%	7.7%
Asian or Pacific Islander	5.6%	5.7%	3.5%	3.6%	4.5%	4.5%
American Indian or Alaskan Native	0.2%	0.4%	0.3%	0.4%	0.3%	0.4%
Other	0.2%	0.5%	0.2%	0.6%	0.2%	0.6%
Different Races	2.6%	2.2%	2.8%	2.5%	2.7%	2.4%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Age of Borrower						
Under 30	17.2%	10.7%	5.2%	3.8%	10.8%	6.8%
30-39	24.4%	16.6%	19.4%	14.1%	21.7%	15.1%
40 and Over	38.7%	27.1%	57.5%	37.6%	48.8%	33.1%
Unknown	19.7%	45.6%	17.8%	44.5%	18.7%	45.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gender of Borrower(s)						
All Male	29.8%	25.1%	24.3%	20.8%	26.8%	22.6%
All Female	23.5%	19.7%	23.0%	18.3%	23.2%	18.9%
Male and Female	41.3%	35.2%	47.1%	40.1%	44.4%	38.0%
Unknown	5.4%	20.1%	5.7%	20.9%	5.5%	20.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: HUD analysis of GSE Public Use Data Base loan-level data. Corresponding data for 2001-2004 are presented in Tables B.5 through B.8.

[1] Interpreted as follows: 14.6 percent of home purchase loans purchased by Fannie Mae in 2005 had loan-to-value ratios over 95 percent.

[2] From Table 9 of Fannie Mae's and Freddie Mac's Annual Housing Activities Reports. Excludes mortgages with missing information on whether borrower is a first-time or repeat homebuyer.

Table 8

Loan-to-Value Characteristics of GSEs' Home Purchase Mortgages Meeting Housing Goals, 2005

GSE, Goal	Loan-to-Value Ratio					
	LTV ≤ 80%	80% < LTV ≤ 90%	90% < LTV ≤ 95%	LTV > 95%	Missing	Total
Fannie Mae						
Low- and Moderate Income	60.1%	8.3%	8.9%	22.5%	0.2%	100.0%
Underserved Areas	61.0%	8.6%	9.1%	21.1%	0.3%	100.0%
Special Affordable	53.1%	8.6%	9.8%	28.3%	0.2%	100.0%
All Home Purchase Mortgages	69.3%	8.0%	7.5%	13.7%	1.5%	100.0%
Freddie Mac						
Low- and Moderate Income	68.7%	9.7%	8.4%	12.6%	0.6%	100.0%
Underserved Areas	68.3%	10.0%	8.5%	12.3%	0.8%	100.0%
Special Affordable	62.0%	10.7%	9.0%	17.7%	0.6%	100.0%
All Home Purchase Mortgages	75.7%	8.5%	7.5%	7.7%	0.5%	100.0%
GSEs Combined						
Low- and Moderate Income	64.4%	9.0%	8.6%	17.6%	0.4%	100.0%
Underserved Areas	64.8%	9.3%	8.8%	16.6%	0.5%	100.0%
Special Affordable	57.5%	9.7%	9.4%	23.1%	0.4%	100.0%
All Home Purchase Mortgages	72.4%	8.2%	7.5%	10.8%	1.0%	100.0%

Source: HUD analysis of GSE Public Use Data Base loan-level data; includes mortgages on all owner-occupied 1-4 unit properties in metropolitan areas.

Table 8A

Loan-to-Value Characteristics of GSEs' Home Purchase Mortgages By Borrower Race/Ethnicity, 2005

	Loan-to-Value Ratio					
GSE, Borrower Race/Ethnicity	LTV ≤ 80%	80% < LTV ≤ 90%	90% < LTV ≤ 95%	LTV > 95%	Missing	Total
Fannie Mae						
African American	45.1%	10.1%	12.5%	31.4%	0.9%	100.0%
American Indian/Alaskan Native	65.6%	8.0%	9.4%	16.2%	0.8%	100.0%
Asian or Pacific Islander	81.9%	7.9%	5.4%	4.5%	0.2%	100.0%
Hispanic	56.6%	10.3%	10.3%	22.3%	0.5%	100.0%
White (Non-Hispanic)	72.2%	7.5%	7.2%	12.8%	0.4%	100.0%
All Home Purchase Mortgages*	69.3%	8.0%	7.5%	13.7%	1.5%	100.0%
Freddie Mac						
African American	58.4%	13.9%	12.3%	14.1%	1.2%	100.0%
American Indian/Alaskan Native	75.3%	9.1%	7.4%	7.2%	1.0%	100.0%
Asian or Pacific Islander	84.2%	7.1%	5.2%	3.2%	0.2%	100.0%
Hispanic	63.5%	10.1%	10.7%	14.9%	0.8%	100.0%
White (Non-Hispanic)	78.8%	7.7%	7.5%	5.7%	0.3%	100.0%
All Home Purchase Mortgages*	75.7%	8.5%	7.5%	7.7%	0.5%	100.0%
GSEs Combined						
African American	51.8%	12.0%	12.4%	22.7%	1.1%	100.0%
American Indian/Alaskan Native	70.9%	8.6%	8.3%	11.3%	0.9%	100.0%
Asian or Pacific Islander	83.0%	7.5%	5.3%	3.9%	0.2%	100.0%
Hispanic	59.4%	10.2%	10.5%	19.3%	0.6%	100.0%
White (Non-Hispanic)	75.3%	7.6%	7.3%	9.5%	0.3%	100.0%
All Home Purchase Mortgages*	72.4%	8.2%	7.5%	10.8%	1.0%	100.0%

*Total includes borrowers of 2 or more races and borrowers with missing race, not shown separately.

Source: HUD analysis of GSE Public Use Data Base loan-level data; includes mortgages on all owner-occupied 1-4 unit properties in metropolitan areas.

Table 8B

Loan-to-Value Characteristics of GSEs' Home Purchase Mortgages By Borrower Income, 2005

	Loan-to-Value Ratio					
GSE, Borrower Income Ratio	LTV ≤ 80%	80% < LTV ≤ 90%	90% < LTV ≤ 95%	LTV > 95%	Missing	Total
Fannie Mae						
<= 60% AMI	51.8%	8.3%	9.1%	28.1%	2.7%	100.0%
>60% - <=80% AMI	59.8%	8.0%	8.6%	22.9%	0.7%	100.0%
>80% - <=100% AMI	66.4%	8.0%	8.2%	16.8%	0.7%	100.0%
>100% - <=120% AMI	71.5%	7.8%	7.8%	12.4%	0.5%	100.0%
>120% AMI	79.4%	7.4%	6.0%	6.9%	0.3%	100.0%
Missing Borrower Income	55.5%	13.1%	11.2%	2.4%	17.7%	100.0%
All Home Purchase Mortgages	69.3%	8.0%	7.5%	13.7%	1.5%	100.0%
Freddie Mac						
<= 60% AMI	62.1%	10.6%	8.9%	17.9%	0.6%	100.0%
>60% - <=80% AMI	69.1%	9.8%	8.4%	12.1%	0.6%	100.0%
>80% - <=100% AMI	74.2%	9.1%	8.2%	8.0%	0.6%	100.0%
>100% - <=120% AMI	77.8%	8.4%	8.3%	5.0%	0.6%	100.0%
>120% AMI	82.9%	7.2%	6.4%	3.1%	0.4%	100.0%
Missing Borrower Income	69.6%	9.1%	6.4%	12.4%	2.5%	100.0%
All Home Purchase Mortgages	75.7%	8.5%	7.5%	7.7%	0.5%	100.0%
GSEs Combined						
<= 60% AMI	56.8%	9.4%	9.0%	23.1%	1.7%	100.0%
>60% - <=80% AMI	64.5%	8.9%	8.5%	17.4%	0.7%	100.0%
>80% - <=100% AMI	70.4%	8.6%	8.2%	12.3%	0.6%	100.0%
>100% - <=120% AMI	74.5%	8.1%	8.0%	8.9%	0.5%	100.0%
>120% AMI	81.1%	7.3%	6.2%	5.1%	0.4%	100.0%
Missing Borrower Income	61.2%	11.5%	9.3%	6.4%	11.6%	100.0%
All Home Purchase Mortgages	72.4%	8.2%	7.5%	10.8%	1.0%	100.0%

Source: HUD analysis of GSE Public Use Data Base loan-level data; includes mortgages on all owner-occupied 1-4 unit properties in metropolitan areas.

Table 9

Census Tract Characteristics of Mortgages on One-Family Owner-Occupied Properties Purchased by the GSEs, 2005

	Home Purchase Mortgages		Refinance/Other Mortgages		Total	
Census Tract Characteristics	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Median Income of Tract						
80% of Area Median or Below	13.2% [1]	15.0%	13.8%	15.2%	13.5%	15.1%
81-120% of Median	52.7%	52.9%	54.3%	55.2%	53.6%	54.2%
Over 120% of Median	34.1%	32.0%	31.9%	29.7%	32.9%	30.7%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Minority Composition of Tract						
Less Than 10% Minority	36.4%	36.0%	35.0%	35.5%	35.7%	35.7%
10-30% Minority	37.7%	36.3%	33.8%	32.7%	35.6%	34.2%
Over 30% Minority	25.9%	27.8%	31.2%	31.9%	28.7%	30.1%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Percent in Low-income **and** High-minority Tracts	8.9%	10.5%	9.9%	11.0%	9.5%	10.8%
Underserved Areas	33.5%	36.0%	36.9%	38.8%	35.3%	37.6%

Source: HUD analysis of GSE Public Use Data Base loan-level data. Corresponding data for 2001-2004 are presented in Tables B.9 through B.12.

[1] Interpreted as follows: 13.2 percent of home purchase loans acquired by Fannie Mae in 2005 were for properties in census tracts with median income no greater than 80 percent of area median income.

Table 10

Trends in the Characteristics of Home Purchase Loans Acquired by the GSEs, 2001-2005[1]

Characteristic	2001	2002	2003	2004	2005
Very-Low-Income Borrowers[2]					
Fannie Mae	11.6 %	12.5 %	12.9 %	15.0 %	14.8 %
Freddie Mac	11.1 %	11.5 %	10.4 %	13.4 %	13.8 %
Freddie Mac/Fannie Mae	0.95	0.92	0.80	0.89	0.93
African-American Borrowers					
Fannie Mae	3.7 %	3.7 %	3.7 %	6.3 %	5.7 %
Freddie Mac	2.7 %	2.5 %	2.4 %	4.8 %	6.4 %
Freddie Mac/Fannie Mae	0.73	0.67	0.65	0.77	1.13
Hispanic Borrowers					
Fannie Mae	6.0 %	6.4 %	6.4 %	10.0 %	9.9 %
Freddie Mac	4.6 %	4.2 %	4.0 %	6.8 %	7.7 %
Freddie Mac/Fannie Mae	0.78	0.67	0.63	0.68	0.78
First-Time Homebuyers[3]					
Fannie Mae	26.3 %	25.4 %	25.4 %	36.9 %	35.7 %
Freddie Mac	26.8 %	26.1 %	25.4 %	22.7 %	29.4 %
Freddie Mac/Fannie Mae	1.02	1.03	1.00	0.62	0.82
Low-Income Tracts					
Fannie Mae	9.5 %	9.2 %	8.9 %	11.7 %	13.5 %
Freddie Mac	8.7 %	9.2 %	8.0 %	11.1 %	15.1 %
Freddie Mac/Fannie Mae	0.92	1.00	0.89	0.94	1.12
High-Minority Tracts					
Fannie Mae	15.2 %	15.6 %	26.0 %	30.7 %	28.7 %
Freddie Mac	12.0 %	13.6 %	20.3 %	27.5 %	30.1 %
Freddie Mac/Fannie Mae	0.79	0.87	0.78	0.90	1.05
Underserved Areas					
Fannie Mae	26.2 %	26.3 %	25.6 %	31.6 %	35.3 %
Freddie Mac	24.5 %	25.6 %	22.8 %	29.5 %	37.6 %
Freddie Mac/Fannie Mae	0.94	0.97	0.89	0.93	1.06

Source: HUD analysis of GSEs' loan-level data on home purchase mortgages on owner-occupied one-unit properties. From National File B, HUD's GSE Public Use Data Base.

[1] As a percentage of loans for which information was reported by the GSEs; that is, loans with missing borrower on tract information on income, race,or served/underserved status are excluded rom the denominator.

[2] I.e., 11.6% of the home purchase mortgages on owner-occupied one-unit properties purchased by Fannie Mae in 2001 were for very-low-income borrowers (those with income less than or equal to 60 percent of area median income).

[3] As reported by the GSEs in Table 9 of their Annual Housing Activities Reports, as a percentage of all home purchase loans, excluding those where first-time homebuyer status is unknown.

Table 11

Mortgage Rates, Home Purchase and Refinance Loan Volume, and Special Affordable Share of Loans Purchased by Fannie Mae and Freddie Mac, 2000-2005

		Number of Loans[1]						Special Affordable Share of Loans					
	Average Mortgage	Home Purchase		Refinance[2]		Total		Home Purchase		Refinance[2]		Total	
Year	Rate	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
2000	7.96%	1,204,792	923,390	525,228	452,776	1,730,020	1,376,166	12.7%	13.8%	14.8%	16.7%	13.3%	14.8%
2001	7.03%	1,504,665	1,034,663	2,401,451	1,775,234	3,906,116	2,809,897	14.4%	13.6%	12.3%	12.1%	13.0%	12.6%
2002	6.51%	1,680,498	1,126,460	3,524,997	2,810,377	5,205,495	3,936,837	16.3%	14.8%	12.7%	12.2%	13.8%	12.9%
2003	5.73%	1,926,833	959,015	6,401,817	3,889,922	8,328,650	4,848,937	17.8%	14.8%	13.1%	10.8%	14.1%	11.5%
2004	5.74%	1,666,118	1,098,911	2,279,238	1,676,101	3,945,356	2,775,012	18.3%	14.5%	15.4%	14.6%	16.6%	14.5%
2005	5.90%	1,403,872	1,369,782	1,631,971	1,803,472	3,035,843	3,173,254	17.0%	17.5%	18.5%	16.5%	17.8%	16.9%

[1] For loans on one-unit owner-occupied properties.

[2] Refinance and other mortgages (second mortgages, loans without purpose listed.)

Source: Average effective mortgage rate from the Federal Housing Finance Board; loan volume from Table 4; special affordable shares from Table 5.

Table 12

Home Purchase Loans for Owner-Occupied 1-4 Unit Properties, By Race and Income, 2005

	Borrower Income Relative to Area Median Income (AMI)			
Race/Ethnicity	< = 60% of AMI	61-100% of AMI	> 100% of AMI	Total[1]
African-American (excluding Hispanic)				
Freddie Mac	15,924	27,198	26,092	70,849
Fannie Mae	13,356	22,012	27,590	64,638
GSE Total	29,280	49,210	53,682	135,487
Freddie Mac's Share	0.54	0.55	0.49	0.52
Hispanic (of any race)				
Freddie Mac	13,303	31,781	48,045	94,811
Fannie Mae	18,570	37,513	70,779	132,076
GSE Total	31,873	69,294	118,824	226,887
Freddie Mac's Share	0.42	0.46	0.40	0.42
American Indian/Alaskan Native (excluding Hispanic)				
Freddie Mac	705	1,634	2,359	4,834
Fannie Mae	553	1,138	2,265	4,075
GSE Total	1,258	2,772	4,624	8,909
Freddie Mac's Share	0.56	0.59	0.51	0.54
Asian American/ NHOPI[2] (excluding Hispanic)				
Freddie Mac	5,597	18,789	41,115	67,109
Fannie Mae	6,443	18,587	45,821	73,839
GSE Total	12,040	37,376	86,936	140,948
Freddie Mac's Share	0.46	0.50	0.47	0.48
White (non-Hispanic)				
Freddie Mac	114,072	257,331	501,053	884,886
Fannie Mae	122,250	265,786	533,213	948,154
GSE Total	236,322	523,117	1,034,266	1,833,040
Freddie Mac's Share	0.48	0.49	0.48	0.48
Total[3]				
Freddie Mac	189,803	432,466	735,423	1,401,731
Fannie Mae	184,758	394,048	788,204	1,423,691
GSE Total	374,561	826,514	1,523,627	2,825,422
Freddie Mac's Share	0.51	0.52	0.48	0.50

Source: HUD's analysis of data from the GSEs' Public Use Data Base, National File B.

[1] Total includes units where borrower's income ratio cannot be determined due to missing annual income and/ or missing area median income.

[2] NHOPI= Native Hawaiian or Other Pacific Islander.

[3] Includes other races, borrower and coborrower of different races; excludes loans for which borrower race/ethnicity not available.

Table 13

Current Year Refinance Loans Purchased by the GSEs, by Borrower Income, Owner-Occupied 1-Unit Properties, 2000-2005

	Year of Origination/Purchase						
Borrower Income Ratio [1]	2000	2001	2002	2003	2004	2005	Total or Average, 2000-2005
<= 60% of AMI							
Number of Loans	89,674	395,887	572,864	956,759	445,132	361,005	2,821,321
Percent of 2000-2005 Total	3.2%	14.0%	20.3%	33.9%	15.8%	12.8%	100.0%
				Weighted Average Mortgage Interest Rate:[4]			6.165%
60% to <= 100% of AMI							
Number of Loans	181,133	1,057,178	1,435,206	2,406,123	987,429	856,852	6,923,921
Percent of 2000-2005 Total	2.6%	15.3%	20.7%	34.8%	14.3%	12.4%	100.0%
				Weighted Average Mortgage Interest Rate:[4]			6.171%
> 100% of AMI							
Number of Loans	306,668	2,247,059	3,095,196	5,352,599	1,717,043	1,473,719	14,192,284
Percent of 2000-2005 Total	2.2%	15.8%	21.8%	37.7%	12.1%	10.4%	100.0%
				Weighted Average Mortgage Interest Rate:[4]			6.173%
Total [2]							
Number of Loans	577,475	3,700,124	5,103,266	8,715,481	3,149,604	2,691,576	23,937,526
Percent of 2000-2005 Total	2.4%	15.5%	21.3%	36.4%	13.2%	11.2%	100.0%
				Weighted Average Mortgage Interest Rate:[4]			6.171%
Effective Mortgage Rate [3]	7.96%	7.03%	6.51%	5.73%	5.74%	5.90%	6.48%

Source: HUD analysis of GSEs' loan-level data from National File B of the Public Use Data Base; Federal Housing Finance Board's Mortgage Interest Rate Survey.

[1] Borrower income relative to area median income (AMI)

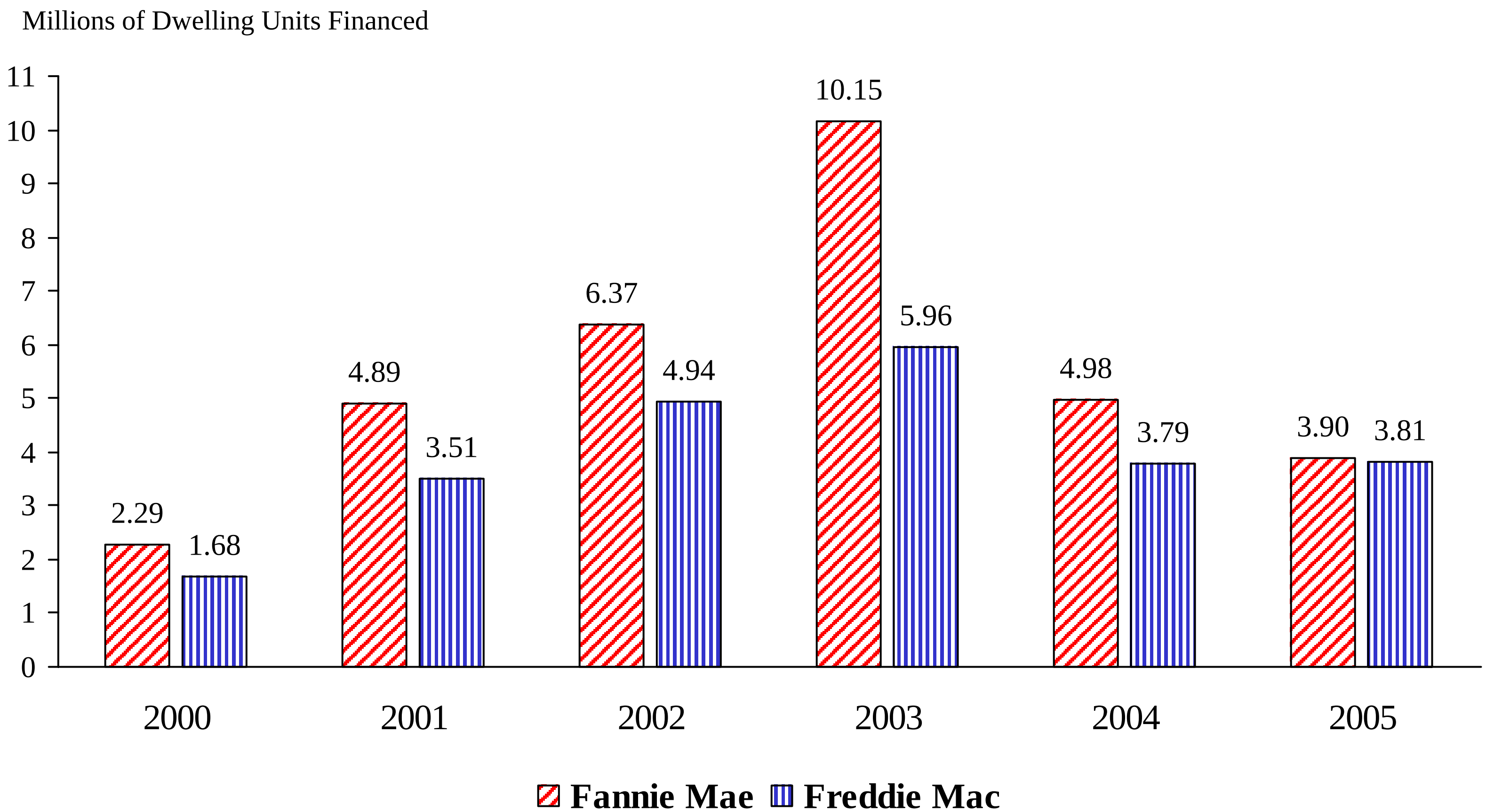
[2] Excludes "not available" cases.

[3] The average yearly effective mortgage rate is the contract interest rate plus all fees, points, and charges amortized over a 10-year period, for new and existing homes.

[4] "Weighted average mortgage interest rate" is the weighted average of effective mortgage rates over the 2000-05 period, where the weights are the annual shares of all refinance loans taken out by borrowers in the indicated income range over the 2000-05 period.

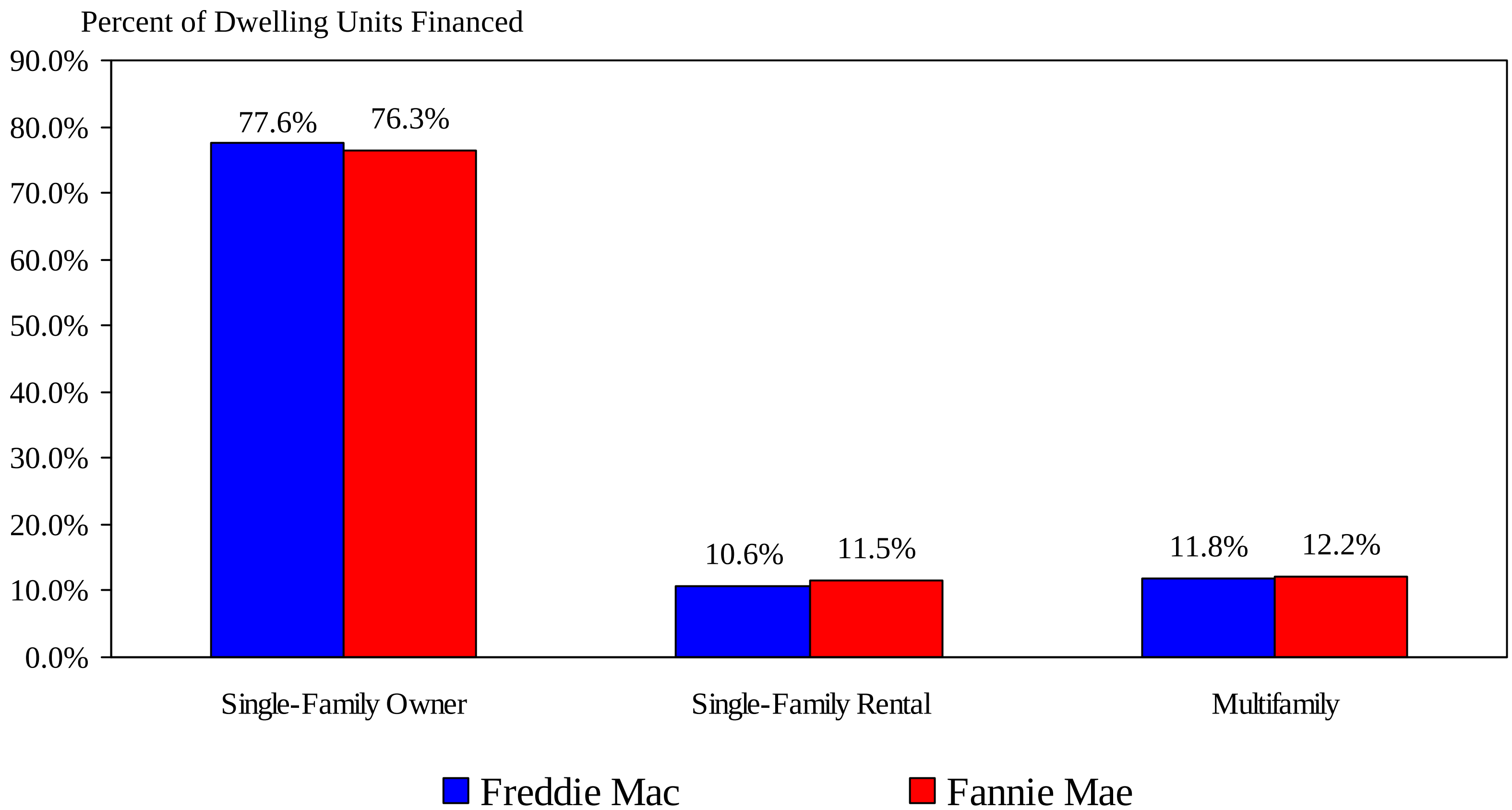
FIGURES

Figure 1
GSEs' Total Mortgage Purchases,
2000-2005



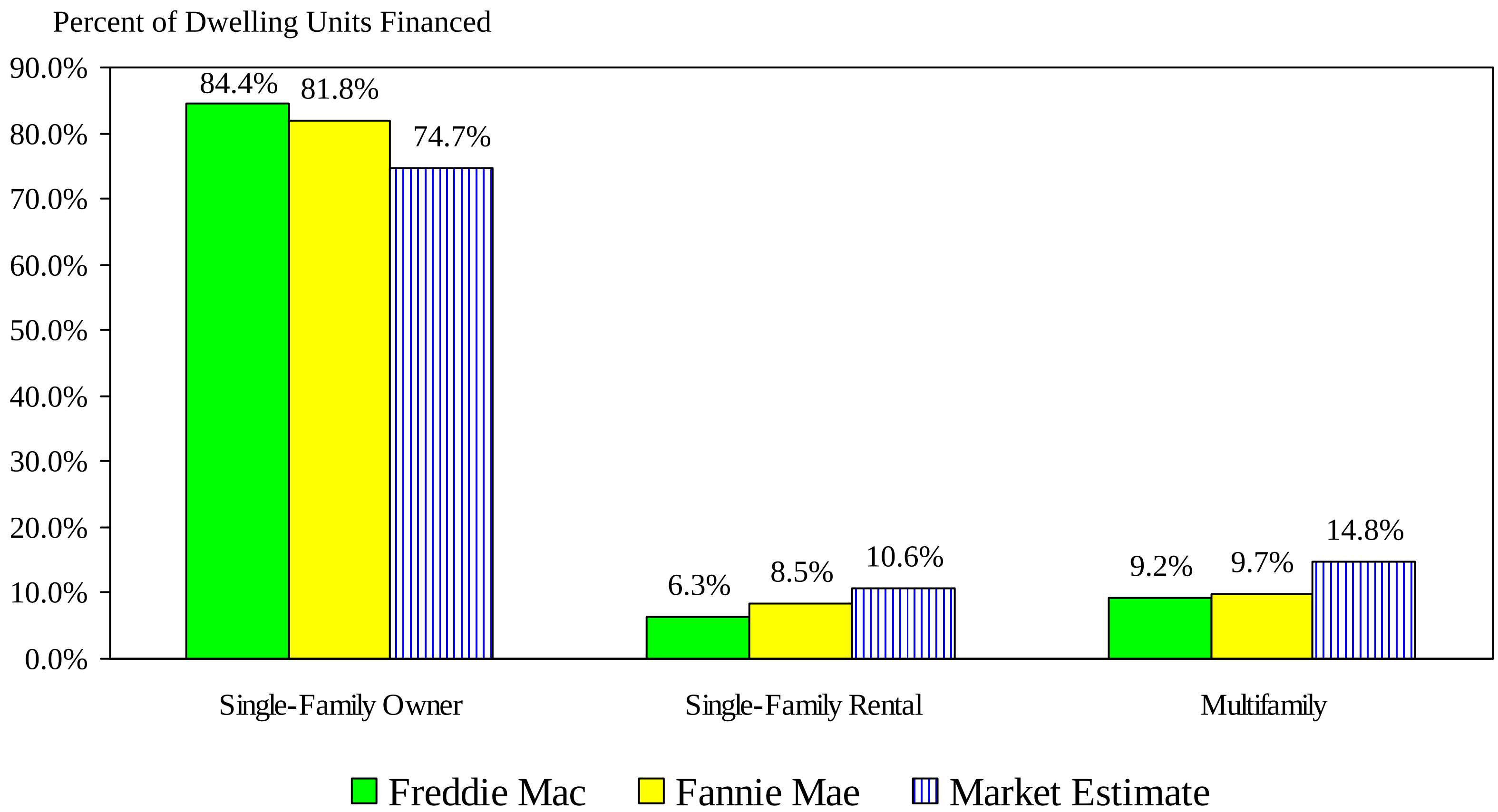
Source: Table 1 of the GSEs' Annual Housing Activities Reports. Data are adjusted for REMIC weights and participations.

Figure 2A
Distribution of Mortgage Business by Major Property Type, 2005



Source: HUD's analysis from Table 1.

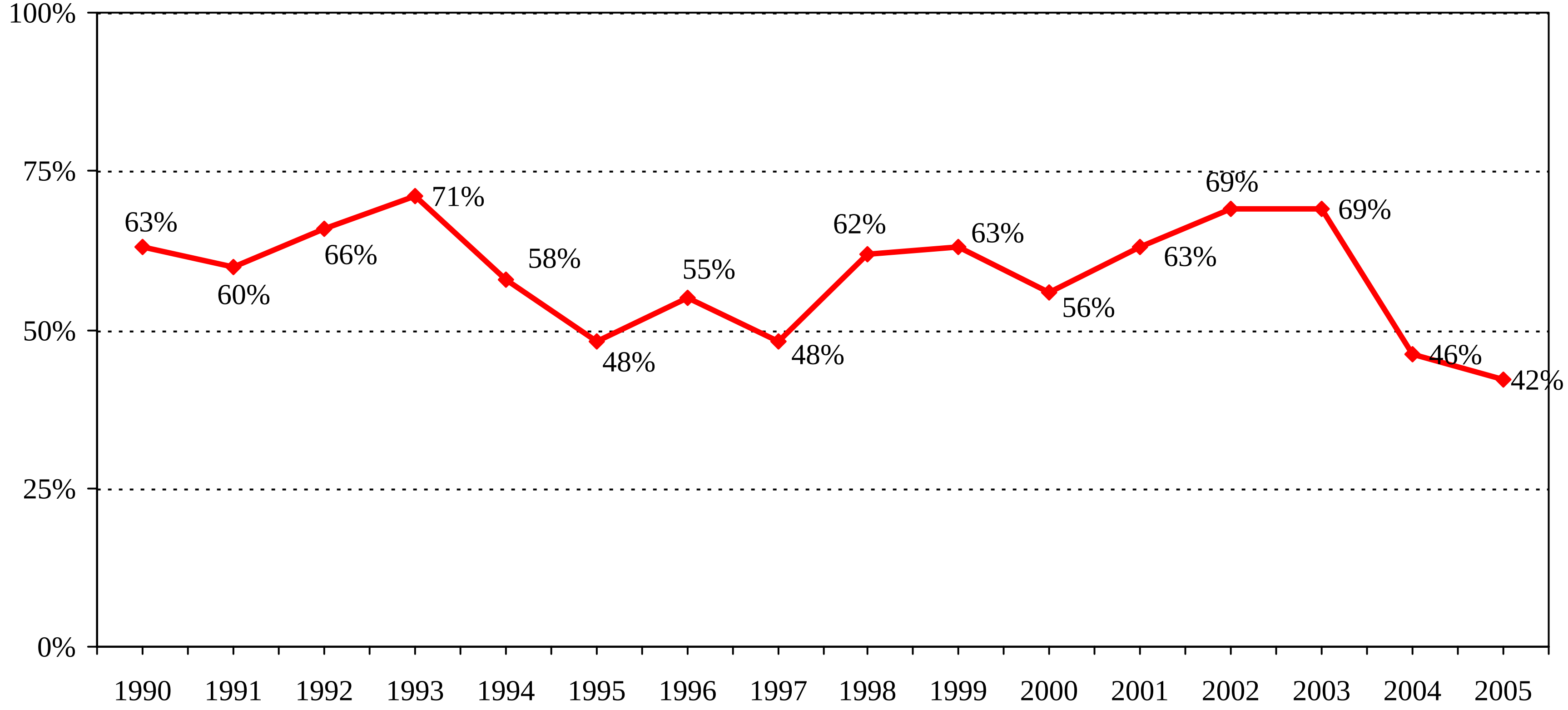
Figure 2B
Distribution of Mortgage Business
by Major Property Type, 1999-2002



Source: Table A.30, *Federal Register*, volume 69, November 2, 2004, p.63736.

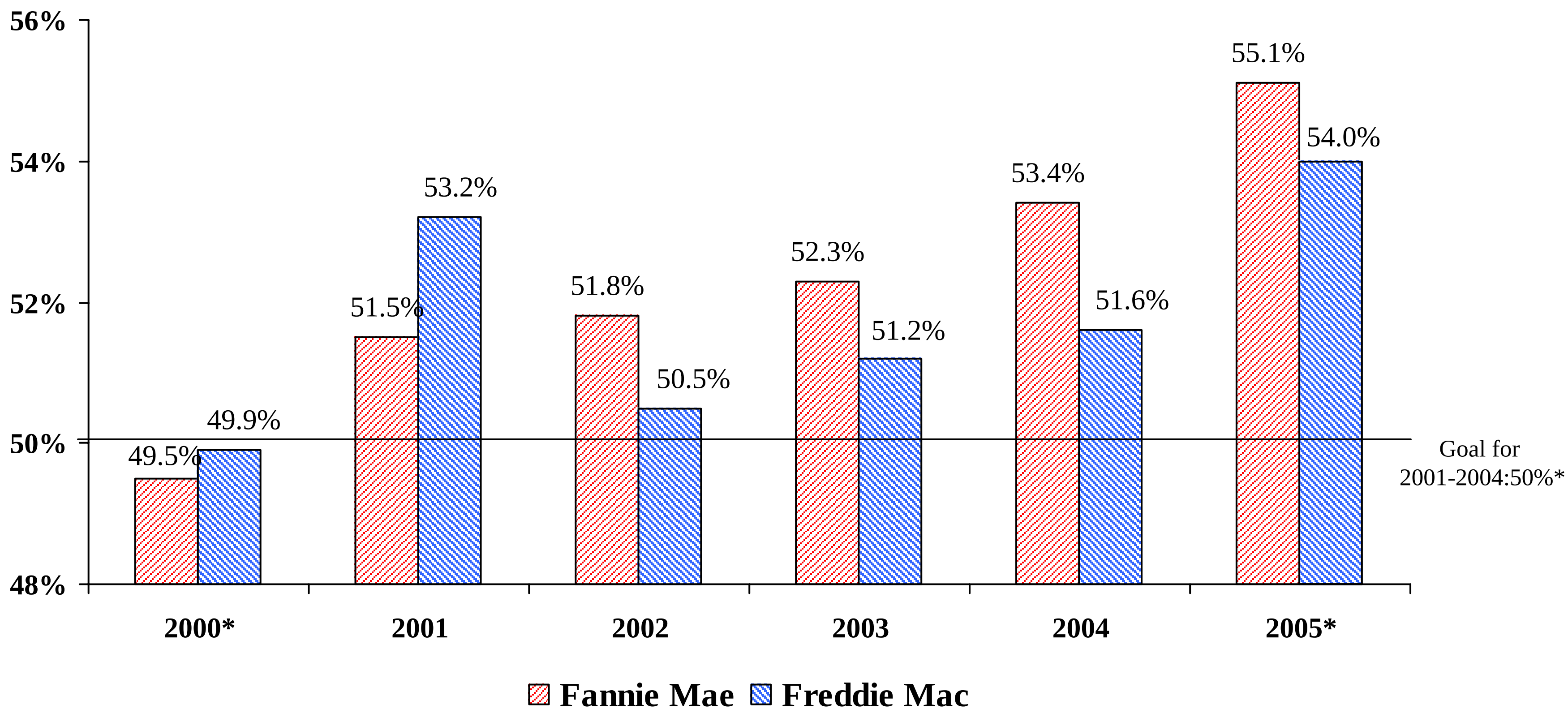
Figure 3

GSEs' Purchases as a Share of Originations in the Conventional Conforming Single-Family Mortgage Market, 1990-2005



Source: Office of Federal Housing Enterprise Oversight (OFHEO). Originations and purchases measured in dollars (not units financed). These figures do not include GSE purchases of mortgage-related securities.

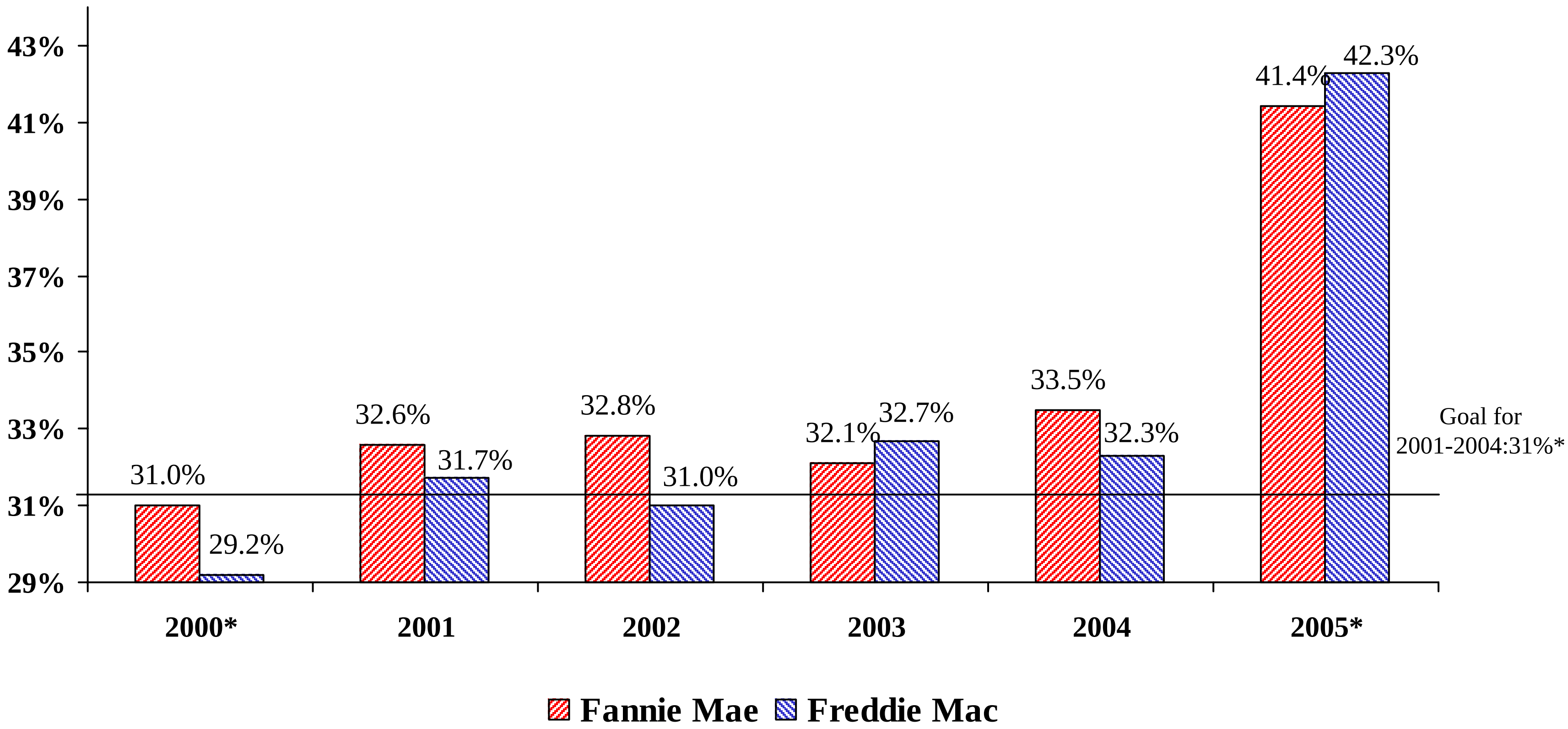
Figure 4
GSEs' Performance on HUD's Low- and Moderate-Income Goal, 2000-2005



* Goal for 2000: 42%; goal for 2005: 52%.

Notes: Performance as determined by HUD, which may differ from performance reported by the GSEs. Performance in 2001-03 not strictly comparable to performance in 2000 and 2004-05 due to bonus points and Freddie Mac's "temporary adjustment factor".

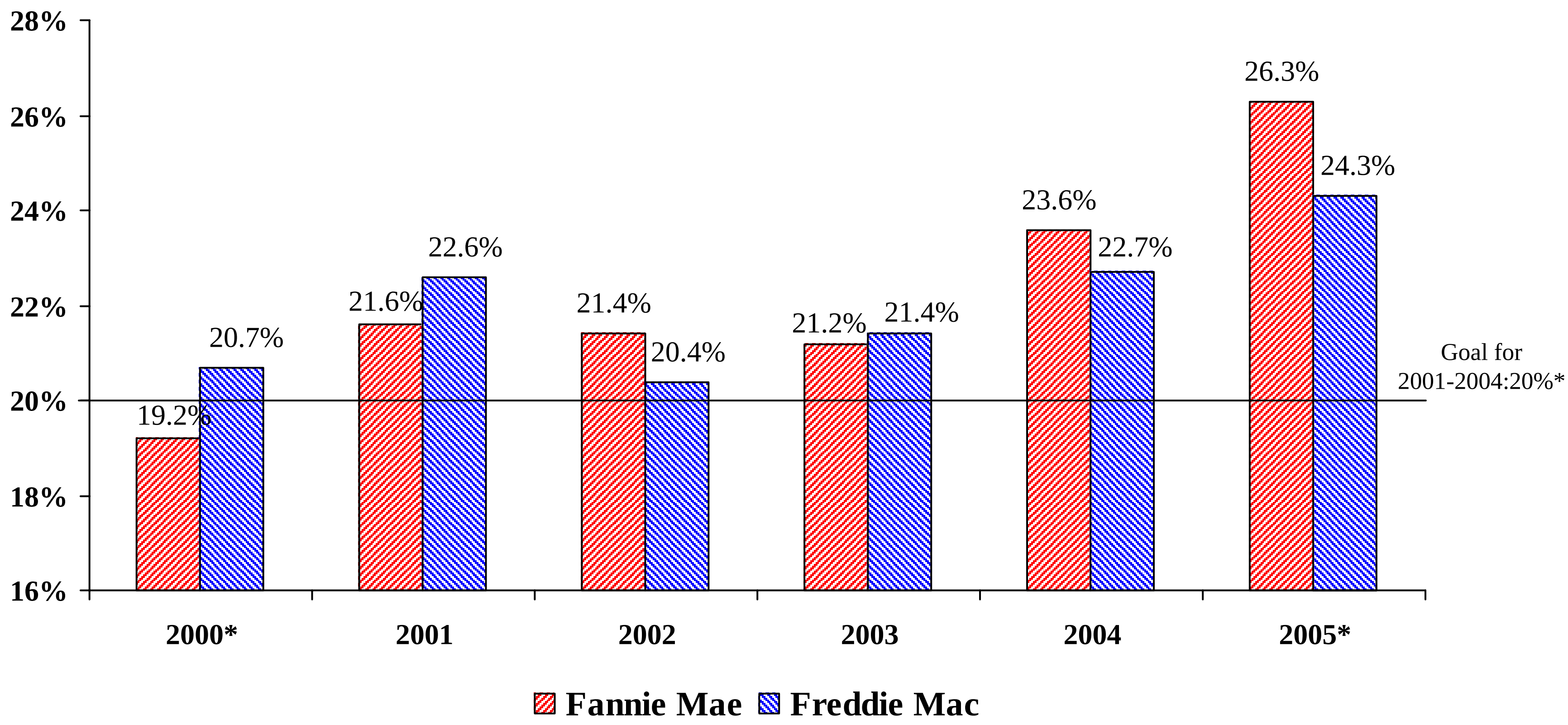
Figure 5
GSEs' Performance on HUD's Underserved Areas Goal, 2000-2005



* Goal for 2000: 24%; goal for 2005: 37%, Goals for 2000-04 based on 1990 census data; goal for 2005 based on 2000 census data.

Notes: Performance as determined by HUD, which may differ from performance reported by the GSEs. Performance in 2001-03 not strictly comparable to performance in 2000 and 2004-05 due to bonus points and Freddie Mac's "temporary adjustment factor".

Figure 6
GSEs' Performance on HUD's Special Affordable Goal, 2000-2005

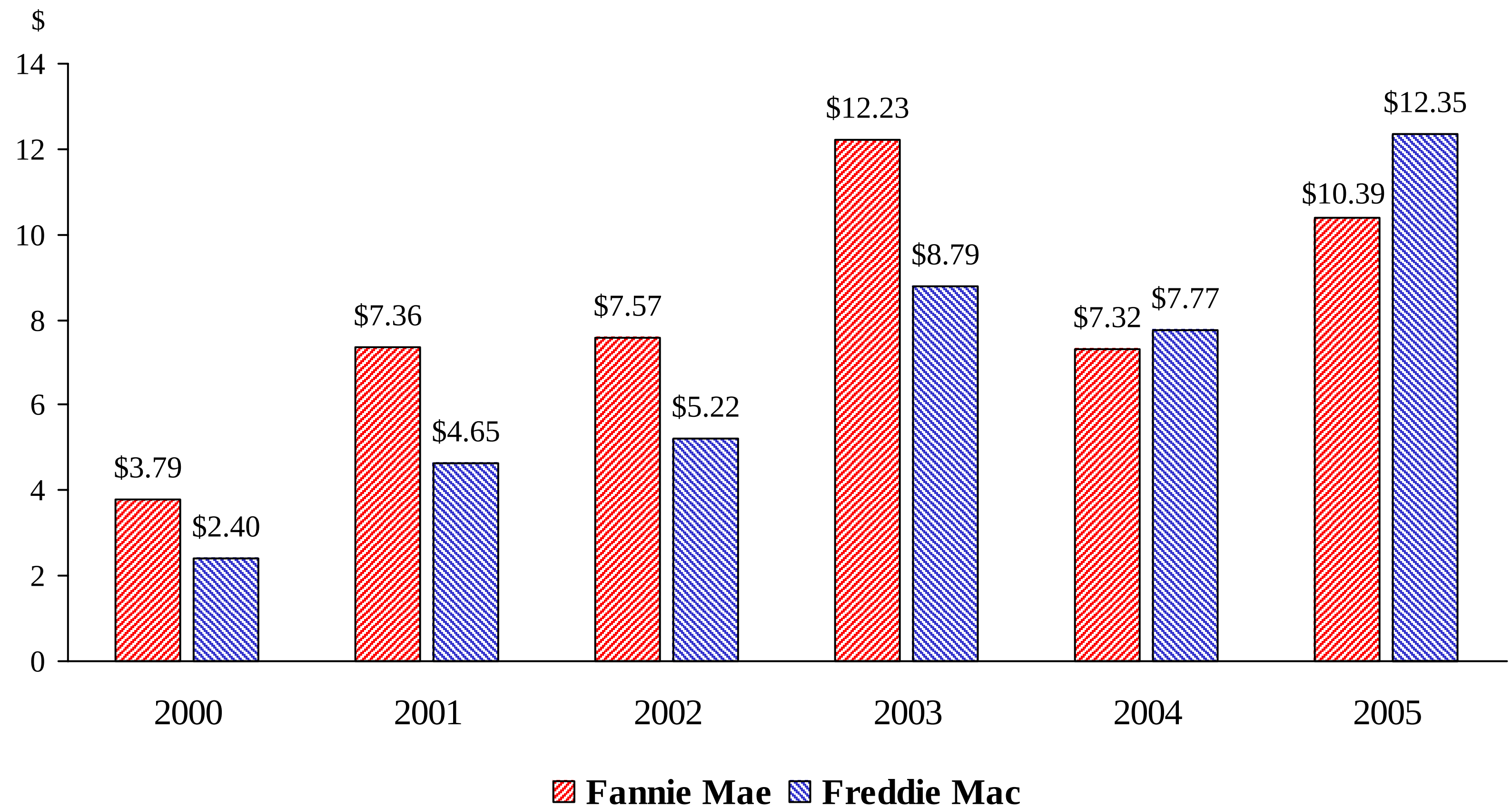


* Goal for 2000: 14%; goal for 2005: 22%

Notes: Performance as determined by HUD, which may differ from performance reported by the GSEs. Performance in 2001-03 not strictly comparable to performance in 2000 and 2004-05 due to bonus points and Freddie Mac's "temporary adjustment factor".

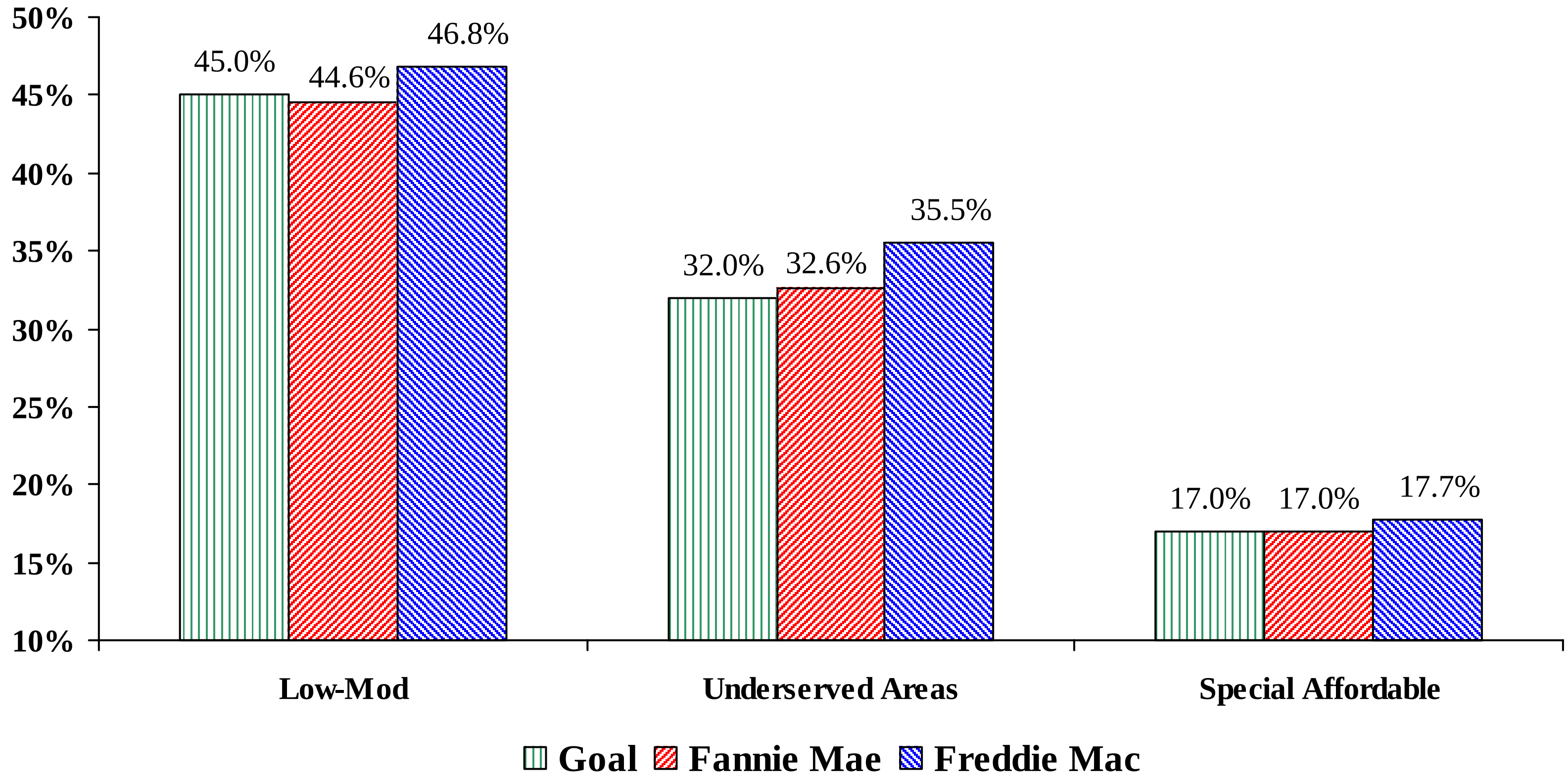
Figure 6A
GSEs' Special Affordable Multifamily Mortgage Purchases, 2000-2005

(In billions of dollars)



<u>Annual Goals in Billions:</u> Fannie Mae: $1.29 for 1996-2000, $2.85 for 2001-04, $5.49 for 2005;
Freddie Mac: $0.99 for 1996-2000, $2.11 for 2001-04, $3.92 for 2005.

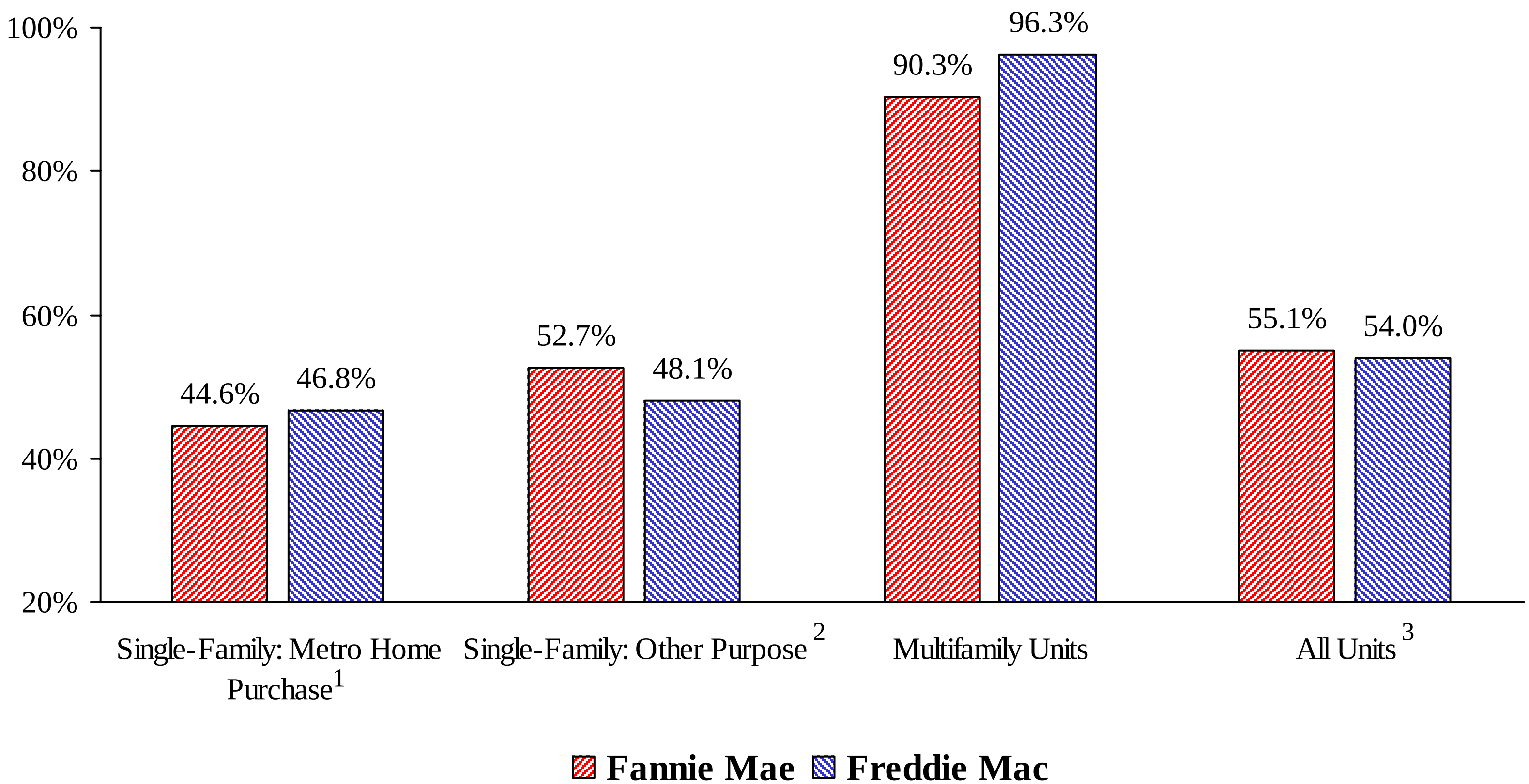
Figure 6B
GSEs' Performance on HUD's Home Purchase Subgoals in 2005



Note: Performance as determined by HUD.

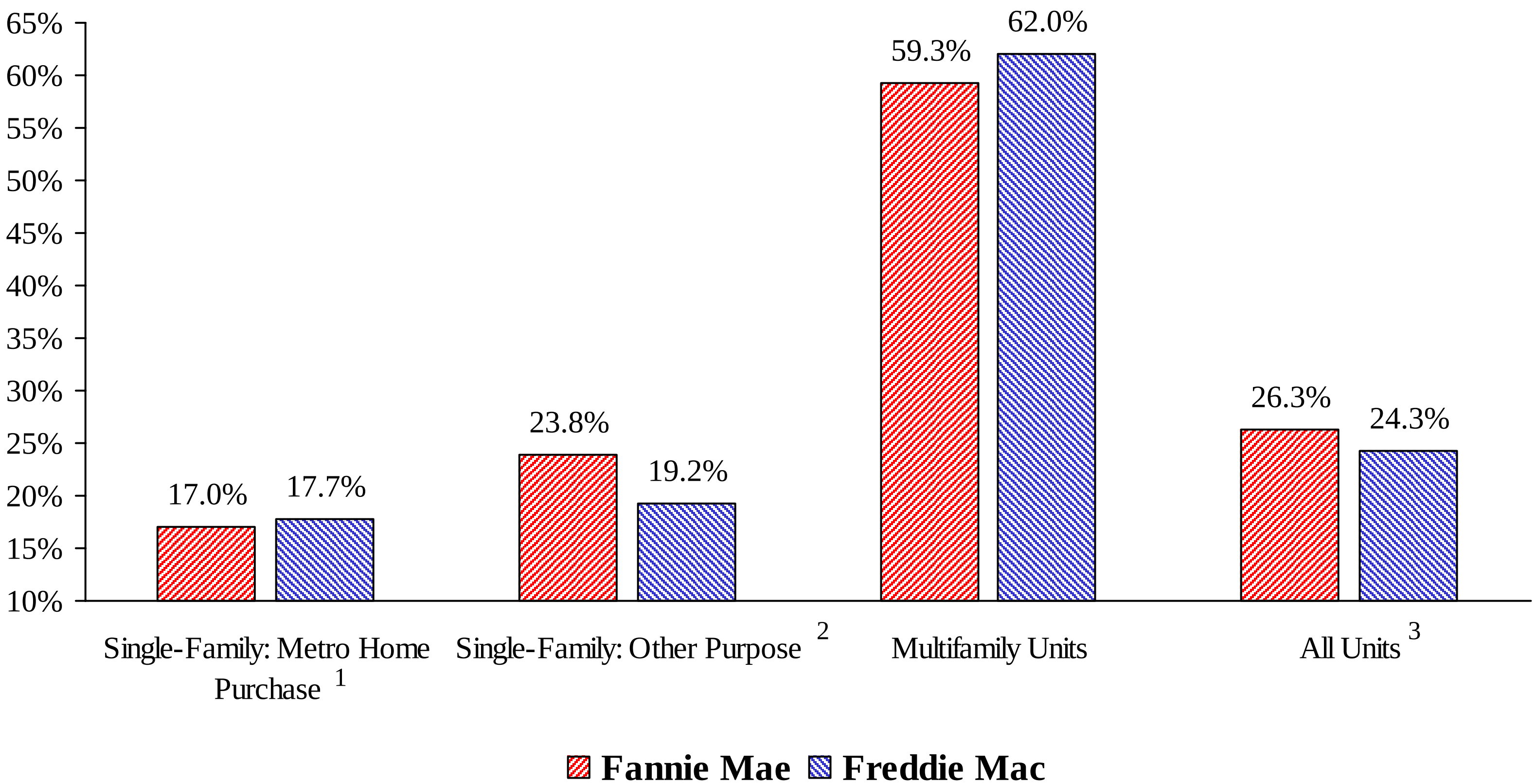
Figure 6C

Low- and Moderate-Income Share of Units Financed by the GSEs in 2005 by Property Type and Loan Purpose



[1] Performance on the low- and moderate-income metro home purchase subgoal of 45%.
[2] Refinance and second mortgages, home purchase mortgages in non-metro areas, single-family rental mortgages,other.
[3] Performance on the overall low- and moderate-income goal of 52%.

Figure 6D
Special Affordable Share of Units Financed by the GSEs in 2005 by Property Type and Loan Purpose

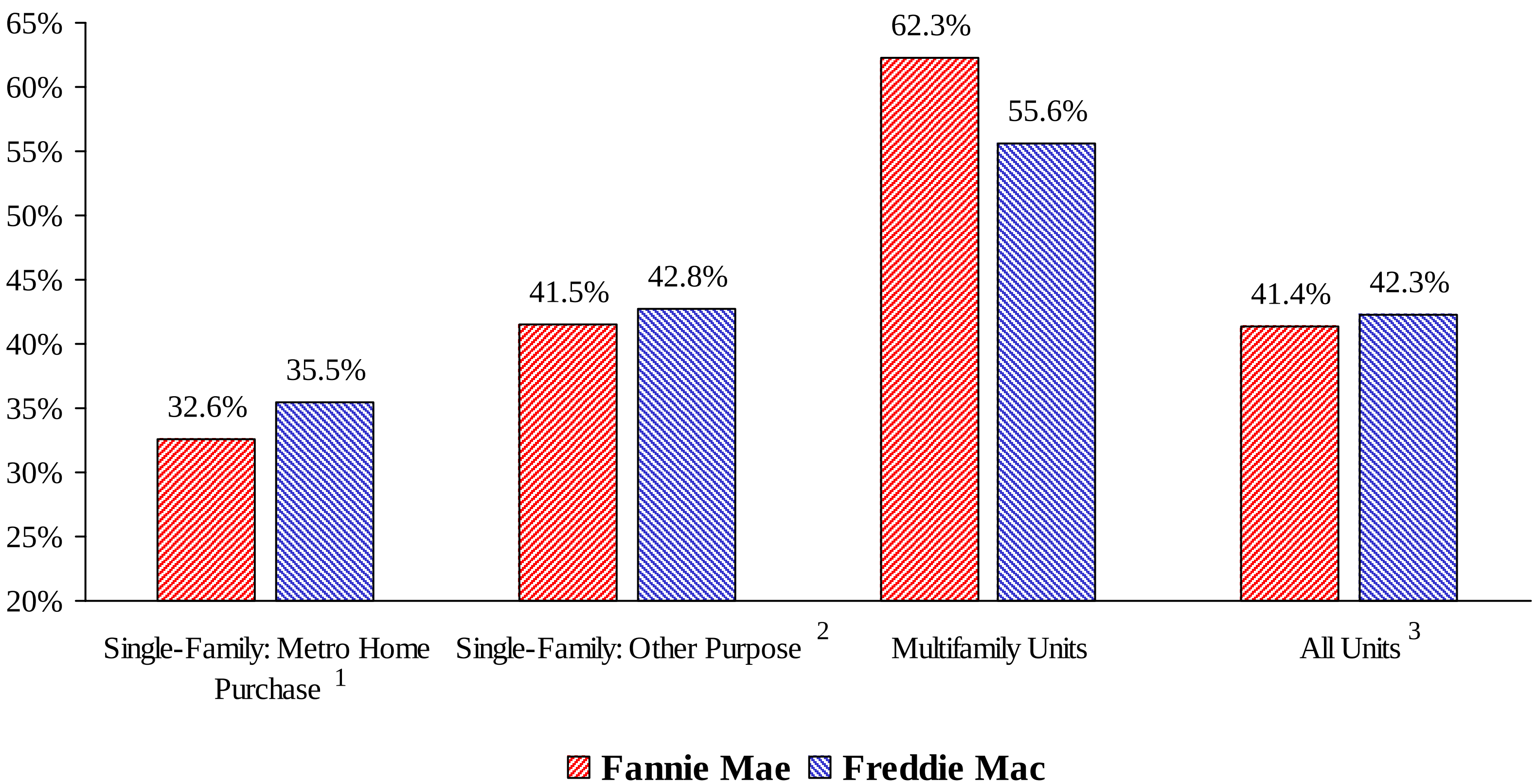


[1] Performance on the special affordable metro home purchase subgoal of 17%.

[2] Refinance and second mortgages, home purchase mortgages in non-metro areas, single-family rental mortgages, other.

[3] Performance on the overall special affordable goal of 22%.

Figure 6E
Underserved Areas Share of Units Financed by the GSEs in 2005 by Property Type and Loan Purpose



[1] Performance on the underserved areas metro home purchase subgoal of 32%.
[2] Refinance and second mortgages, home purchase mortgages in non-metro areas, single-family rental mortgages, other.
[3] Performance on the overall underserved areas goal of 37%.

Appendix A
Missing Data for the GSEs' Loans

The GSEs have not collected sufficient data for some mortgages to determine whether the units financed qualify for the low- and moderate-income and special affordable goals established by the Secretary.[1] Information on the extent of this "missing data" is presented in **Table A.1** for 2000-2005 for mortgages on owner-occupied units, where borrower income is needed in order to measure performance on these two goals, and for single-family and multifamily rental units, where tenant rent is needed. Also, although there is not a first-time homebuyer goal for the GSEs, there is a great deal of interest in the GSEs' provision of such financing, and the GSEs are required to provide HUD with data on home purchase mortgages to distinguish first-time buyers from repeat buyers. Thus "missing homebuyer status" is also included in Table A.1.[2]

The GSEs were not required to collect borrower income and tenant rent information for dwelling units financed by mortgages which were originated prior to 1993, since the 1992 GSE Act did not take effect until January 1, 1993.[3] This is the only situation where a GSE's responsibility to collect income and rent data was waived by the Department. However, as discussed below, HUD adopted new procedures regarding missing data for the 2001-04 housing goals, with some further changes that took effect in 2005.

Several points stand out in Table A.1:

- Fannie Mae consistently had more missing data for *owner-occupied units* than Freddie Mac over the 2000-05 period. The reasons for this discrepancy between the GSEs are not apparent.

- Fannie Mae also had many more *single-family rental units* with missing rent than Freddie Mac over the 2000-04 period—in the most extreme case, such information was missing for 38.2 percent of such units financed by Fannie Mae in 2004, but only 2.9 percent of units financed by Freddie Mac. This pattern

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[1] All units in a property qualify for the underserved areas goal if the property is located in an underserved census tract, whether it is in a metropolitan or nonmetropolitan area (nonmetro underserved areas were formerly defined at the county level). Property location is available for almost all mortgages purchased by the GSEs, thus the missing data issue is not significant for this goal.

[2] The GSEs define "first-time homebuyer" as a buyer who will reside in the mortgaged premises who had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the home.

[3] Purchases of pre-1993 mortgages with missing income or rent data have no effect on the GSEs' goal performance, since any such mortgages are excluded from the numerator and the denominator in calculating performance under the low- and moderate-income and special affordable goals. If a GSE obtains this data for pre-1993 mortgages, the units are included in the denominator and, if the units qualify for the goal, in the numerator in calculating goal performance.

changed dramatically in 2005, when the incidence of rent information on single-family rental units fell to 31.4 percent for Fannie Mae, but rose to 59.5 percent for Freddie Mac. The incidence increased so sharply for Freddie Mac because that GSE purchased a number of asset-backed securities in 2005 in order to meet their housing goals and home purchase subgoals.

- The pattern is mixed for *multifamily rental units*—in some years rent was missing for a greater share of such units financed by Fannie Mae than Freddie Mac, while the opposite was the case in other years.

- Despite the attention paid to *first-time homebuyers*, a relatively high share of units financed by Freddie Mac lack information on whether a home purchaser is a first-time buyer or a repeat buyer. Freddie Mac now lags Fannie Mae substantially in the availability of such information—21.6 percent of units for Freddie Mac, but only 2.9 percent of units for Fannie Mae in 2005; the reasons for this disparity are unknown;

- Both GSEs could examine this issue to determine steps that might be taken to better address the problem of missing data. These analyses could examine the extent to which this problem is attributable to GSE purchases of seasoned loans and negotiated transactions, or to online mortgage applications.

In setting the housing goals for the post-2004 period, HUD made several changes to the 2001-04 provisions regarding the treatment of missing data in reporting goal performance.[4] Specifically:

- For *owner-occupied units*, if a GSE lacks data on income of a borrower, under one option (Option A), if the mortgaged property is located in a census tract with income less than or equal to area median income, such units can be excluded from the denominator (and the numerator) in calculating performance under the *low- and moderate-income goal* and the *special affordable goal*, up to a maximum of one percent of the total number of such units eligible to be counted toward such goal. Units beyond the ceiling must be included in the denominators of the goal ratios. Under another option (Option B), affordability can estimated for mortgage with known home purchase/refinance status, but not if mortgage purpose is known.[5]

[4] The changes made for the 2001-04 period were discussed in Paul B. Manchester, "Goal Performance and Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac," Working Paper No. HF-015 (May 2002), Appendix B. More detailed information on those changes and the reasons why they were adopted were discussed in the *Federal Register*, Volume 65, October 31, 2000, pages 65071-74, 65087-88.

[5] If borrower income and mortgage purpose are unknown and the units are financed through a REMIC, the units can be excluded from the denominator in calculating performance on the low-mod and special affordable goals.

- For *rental units in 1-4 unit properties*, if a GSE lacks data on rent, under one option (Option 1) such units can be excluded from the denominator (and the numerator) in calculating performance under the *low- and moderate-income* and *special affordable goals*. Under another option (Option 2), subject to certain limits, affordability can be estimated in calculating performance on these two goals.

- For *multifamily units,* if a GSE lacks data on rent, it may develop and apply, with the Department's approval, estimated or "proxy" rents, up to a ceiling. When application of proxy rents is not possible, units without rent information can be excluded from the denominator (and the numerator) in calculating performance under the *low- and moderate-income goal* and the *special affordable goal*.

- In general, no units can be excluded from the denominator in calculating performance under the *underserved areas goal*, even if a GSE lacks information on the census tract or nonmetro county in which such units are located. The exception to this general rule is for units financed through a REMIC for which information about property location is lacking—such units can be excluded from scoring for all goals.

These 2005 changes in the treatment of missing data are discussed further in the *Federal Register*, Volume 69, November 2, 2004, pages 63626-27, 63641-42.

Table A.1

GSEs' Mortgages with Missing Information, 2000-2005

	Year of Acquisition					
	2000	2001	2002	2003	2004	2005
Percent of Owner-Occupied Units Financed with Missing Borrower Income						
Fannie Mae	9.1%	6.1%	5.0%	3.7%	5.5%	4.6%
Freddie Mac	6.9%	3.1%	3.9%	2.9%	3.3%	3.1%
Percent of Single-Family Rental Units Financed with Missing Tenant Rent						
Fannie Mae	33.7%	22.0%	23.0%	24.1%	38.2%	31.4%
Freddie Mac	6.3%	18.0%	0.9%	1.1%	2.9%	59.5%
Percent of Multifamily Rental Units Financed with Missing Tenant Rent						
Fannie Mae	2.1%	1.7%	4.6%	6.7%	5.6%	7.3%
Freddie Mac	0.0%	0.5%	4.3%	7.6%	12.7%	2.0%
Percent of Conventional Home Purchase Mortgages with Missing Homebuyer Status[1]						
Fannie Mae	8.7%	4.8%	6.5%	3.9%	5.9%	2.9%
Freddie Mac	10.1%	5.5%	19.8%	15.4%	19.0%	21.6%

[1] Homebuyer status should be reported as "first-time homebuyer" or "repeat homebuyer"; data refer to owner-occupied homes only.

Source: GSEs' Annual Housing Activities Reports, Tables 2, 3, 4, and 9.

Appendix B
Additional Data on the GSEs' Mortgage Purchases in 2001-04

This Appendix presents additional data on the GSEs' mortgage purchases in the most recent years prior to 2005.

- **Tables B.1-B.4** present information on the GSEs' mortgage purchase by property type in 2001-04, and correspond to Table 1 of the text, which presents this information for 2005.

- **Tables B.5-B.8** present information on the loan and borrower characteristics of single-family mortgages purchased by the GSEs in 2001-04, and correspond to Table 7 of the text, which presents this information for 2005.

- **Tables B.9-B.12** present information on the census tract characteristics of single-family mortgages purchased by the GSEs in 2001-04, and correspond to Table 9 of the text, which presents this information for 2005.

Table B.1

GSEs' Mortgage Purchases by Property Type
For 2001

2001 Purchases

Property Type	Fannie Mae UPB[1] ($Millions)	Fannie Mae Percent of Total Dollars	Fannie Mae Units	Fannie Mae Percent of Total Units	Freddie Mac UPB[1] ($Millions)	Freddie Mac Percent of Total Dollars	Freddie Mac Units	Freddie Mac Percent of Total Units
One-Family Owner Properties	$529,358	90.5%	3,905,890	79.8%	$377,095	92.4%	2,801,699	82.9%
Other Single-Family Properties:								
2-4 Unit Owner-Occ. Properties	13,673	2.3%	184,701	3.8%	6,868	1.7%	98,306	2.9%
1-4 Investor Properties	23,177	4.0%	299,401	6.1%	12,394	3.0%	165,163	4.9%
Total Single-Family Properties	566,208	96.8%	4,389,992	89.7%	396,357	97.1%	3,065,168	90.7%
Multifamily Properties	18,688	3.2%	503,909	10.3%	11,867	2.9%	315,868	9.3%
Total Business	$584,896	100.0%	4,893,901	100.0%	$408,224	100.0%	3,381,036	100.0%

Source: GSEs' Annual Housing Activities Reports. Data are adjusted for REMIC weights and participations. Corresponding data for 2005 is presented in Table 1.

[1] Unpaid principal balance of mortgages purchased.

Table B.2

GSEs' Mortgage Purchases by Property Type
For 2002

	2002 Purchases							
	Fannie Mae				Freddie Mac			
Property Type	UPB[1] ($Millions)	Percent of Total Dollars	Units	Percent of Total Units	UPB[1] ($Millions)	Percent of Total Dollars	Units	Percent of Total Units
One-Family Owner Properties	$750,243	90.8%	5,196,328	81.7%	$551,409	93.2%	3,867,190	85.0%
Other Single-Family Properties:								
2-4 Unit Owner-Occ. Properties	19,644	2.4%	240,168	3.8%	11,110	1.9%	150,216	3.3%
1-4 Investor Properties	37,676	4.6%	464,921	7.3%	15,948	2.7%	201,833	4.4%
Total Single-Family Properties	807,563	97.8%	5,901,417	92.7%	578,467	97.7%	4,219,239	92.7%
Multifamily Properties	18,278	2.2%	461,397	7.3%	13,330	2.3%	333,038	7.3%
Total Business	$825,841	100.0%	6,362,814	100.0%	$591,797	100.0%	4,552,277	100.0%

Source: GSEs' Annual Housing Activities Reports. Data are adjusted for REMIC weights and participations. Corresponding data for 2005 is presented in Table 1.

[1] Unpaid principal balance of mortgages purchased.

Table B.3

GSEs' Mortgage Purchases by Property Type
For 2003

	2003 Purchases							
	Fannie Mae				Freddie Mac			
Property Type	UPB[1] ($Million)	Percent of Total Dollars	Units	Percent of Total Units	UPB[1] ($Million)	Percent of Total Dollars	Units	Percent of Total Units
One-Family Owner Properties	$1,262,475	91.1%	8,283,094	82.1%	$707,717	93.3%	4,801,881	83.5%
Other Single-Family Properties:								
2-4 Unit Owner-Occ. Properties	32,477	2.3%	368,602	3.7%	11,850	1.6%	159,052	2.8%
1-4 Unit Investor Properties	57,156	4.1%	632,427	6.3%	16,985	2.2%	198,033	3.4%
Total Single-Family Properties	1,352,108	97.6%	9,284,123	92.0%	736,552	97.2%	5,158,966	89.7%
Multifamily Properties	33,271	2.4%	809,703	8.0%	21,587	2.8%	593,949	10.3%
Total Business	$1,385,379	100.0%	10,093,826	100.0%	$758,139	100.0%	5,752,915	100.0%

Source: GSEs' Annual Housing Activity Reports for 2003, Table 1 and 1A. Data are adjusted for REMIC weights and participations. Corresponding data for 2005 is presented in Table 1.

[1] Unpaid principal balance of mortgages purchased.

Table B.4

GSEs' Mortgage Purchases by Property Type
For 2004

	2004 Purchases							
	Fannie Mae				Freddie Mac			
Property Type	UPB[1] ($Million)	Percent of Total Dollars	Units	Percent of Total Units	UPB[1] ($Million)	Percent of Total Dollars	Units	Percent of Total Units
One-Family Owner Properties	$601,028	89.1%	3,827,683	79.2%	$410,569	87.7%	2,616,389	74.4%
Other Single-Family Properties:								
2-4 Unit Owner-Occ. Properties	19,661	2.9%	203,199	4.2%	12,671	2.7%	135,363	3.8%
1-4 Unit Investor Properties	34,563	5.1%	364,924	7.5%	23,120	4.9%	229,906	6.5%
Total Single-Family Properties	655,252	97.1%	4,395,806	90.9%	446,360	95.3%	2,981,658	84.7%
Multifamily Properties	19,295	2.9%	439,125	9.1%	21,794	4.7%	537,288	15.3%
Total Business	$674,547	100.0%	4,834,931	100.0%	$468,154	100.0%	3,518,946	100.0%

Source: GSEs' Annual Housing Activity Reports for 2004, Table 1 and 1A. Data are adjusted for REMIC weights and participations. Corresponding data for 2005 is presented in Table 1.

[1] Unpaid principal balance of mortgages purchased.

Table B.5

Borrower and Loan Characteristics of Mortgages Purchased by the GSEs on One-Family Owner-Occupied Properties, 2001

Loan and Borrower Characteristics	Home Purchase		Refinance/Other		Total	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Number of Loans	1,504,665	1,034,663	2,401,451	1,775,234	3,906,116	2,809,897
Loan-to-Value Ratio						
Over 95%	7.7% [1]	4.3%	0.1%	0.1%	2.9%	1.6%
91-95%	19.8%	21.0%	3.0%	3.4%	9.2%	9.8%
81-90%	15.1%	13.9%	12.6%	11.7%	13.5%	12.5%
80% or Less	57.4%	60.8%	84.3%	84.8%	74.4%	76.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income of Borrower(s)						
60% of Area Median or Below	13.1%	12.0%	10.8%	10.6%	11.6%	11.1%
61-100% of Median	28.9%	27.7%	28.8%	27.9%	28.9%	27.8%
Below Area Median	42.0%	39.8%	39.7%	38.5%	40.5%	39.0%
Over 100% of Median	58.0%	60.2%	60.3%	61.5%	59.5%	61.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
First-time Home Buyer[2]	26.3%	26.8%				
Race/National Origin of Borrower						
White	79.0%	82.8%	84.2%	86.3%	82.2%	85.0%
African American	4.7%	3.2%	3.0%	2.3%	3.7%	2.7%
Hispanic	7.0%	5.7%	5.3%	4.0%	6.0%	4.6%
Asian or Pacific Islander	4.8%	4.2%	3.8%	3.2%	4.2%	3.6%
American Indian or Alaskan Native	0.3%	0.2%	0.3%	0.2%	0.3%	0.2%
Other	1.6%	1.6%	1.0%	1.9%	1.2%	1.8%
Different Races	2.5%	2.3%	2.3%	2.0%	2.4%	2.1%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Age of Borrower						
Under 30	15.5%	14.4%	7.1%	6.2%	10.3%	9.3%
30-39	29.5%	27.3%	28.0%	25.0%	28.6%	25.9%
40 and Over	40.0%	37.5%	55.2%	48.7%	49.3%	44.6%
Unknown	15.0%	20.8%	9.7%	20.0%	11.7%	20.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gender of Borrower(s)						
All Male	21.8%	22.2%	18.1%	17.2%	19.5%	19.0%
All Female	18.8%	17.9%	15.7%	13.9%	16.9%	15.4%
Male and Female	44.6%	49.2%	56.9%	58.8%	52.1%	55.3%
Unknown	14.8%	10.6%	9.3%	10.1%	11.4%	10.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: HUD analysis of GSE Public Use Data Base loan-level data. Corresponding data for 2005 is presented in Table 7.

[1] Interpreted as follows: 7.7 percent of home purchase loans purchased by Fannie Mae in 2001 had loan-to-value ratios over 95 percent.

[2] From Table 9 of Fannie Mae's and Freddie Mac's Annual Housing Activities Reports. Excludes mortgages with missing informat

Table B.6

Borrower and Loan Characteristics of Mortgages Purchased by the GSEs on One-Family Owner-Occupied Properties, 2002

Loan and Borrower Characteristics	Home Purchase		Refinance/Other		Total	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Number of Loans	1,680,498	1,126,460	3,524,997	2,810,377	5,205,495	3,936,837
Loan-to-Value Ratio						
Over 95%	8.5% [1]	4.9%	0.1%	0.2%	2.6%	1.5%
91-95%	18.3%	18.0%	2.1%	2.8%	7.0%	7.0%
81-90%	14.4%	15.9%	10.1%	10.3%	11.4%	11.9%
80% or Less	58.9%	61.2%	87.7%	86.7%	79.0%	79.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income of Borrower(s)						
60% of Area Median or Below	15.2%	13.5%	11.3%	10.7%	12.5%	11.5%
61-100% of Median	29.8%	29.6%	28.5%	26.9%	28.9%	27.6%
Below Area Median	45.0%	43.1%	39.9%	37.7%	41.4%	39.1%
Over 100% of Median	55.0%	56.9%	60.1%	62.3%	58.6%	60.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
First-time Home Buyer[2]	25.4%	26.1%				
Race/National Origin of Borrower						
White	76.0%	81.8%	83.1%	83.8%	80.9%	83.3%
African American	5.1%	2.9%	3.1%	2.4%	3.7%	2.5%
Hispanic	8.6%	5.5%	5.3%	3.8%	6.4%	4.2%
Asian or Pacific Islander	5.3%	4.5%	4.3%	3.9%	4.6%	4.1%
American Indian or Alaskan Native	0.4%	0.2%	0.3%	0.2%	0.3%	0.2%
Other	2.0%	2.6%	1.3%	3.5%	1.5%	3.3%
Different Races	2.6%	2.4%	2.5%	2.4%	2.6%	2.4%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Age of Borrower						
Under 30	14.7%	11.6%	5.5%	4.6%	8.5%	6.6%
30-39	27.6%	21.8%	26.4%	22.9%	26.8%	22.6%
40 and Over	39.3%	34.1%	59.7%	54.7%	53.1%	48.8%
Unknown	18.4%	32.5%	8.4%	17.7%	11.6%	22.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gender of Borrower(s)						
All Male	22.6%	18.9%	17.8%	16.2%	19.3%	17.0%
All Female	19.4%	14.5%	15.6%	13.0%	16.8%	13.4%
Male and Female	40.8%	40.5%	55.2%	58.4%	50.5%	53.3%
Unknown	17.2%	26.1%	11.5%	12.4%	13.3%	16.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: HUD analysis of GSE Public Use Data Base loan-level data. Corresponding data for 2005 is presented in Table 7.

[1] Interpreted as follows: 8.5 percent of home purchase loans purchased by Fannie Mae in 2002 had loan-to-value ratios over 95 percent.

[2] From Table 9 of Fannie Mae's and Freddie Mac's Annual Housing Activities Reports. Excludes mortgages with missing informat

Table B.7

Borrower and Loan Characteristics of Mortgages Purchased by the GSEs on One-Family Owner-Occupied Properties, 2003

Loan and Borrower Characteristics	Home Purchase		Refinance/Other		Total	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Number of Loans	1,926,833	959,015	6,401,187	3,889,922	8,328,020	4,848,937
Loan-to-Value Ratio						
Over 95%	12.7% [1]	5.2%	0.2%	0.1%	2.9%	1.0%
91-95%	15.3%	16.8%	1.6%	2.4%	4.5%	5.0%
81-90%	11.5%	12.7%	8.2%	8.1%	8.9%	8.9%
80% or Less	60.5%	65.3%	90.1%	89.4%	83.7%	85.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income of Borrower(s)						
60% of Area Median or Below	16.6%	13.4%	11.9%	9.7%	12.9%	10.4%
61-100% of Median	30.3%	29.5%	28.6%	25.7%	28.9%	26.4%
Below Area Median	46.9%	42.9%	40.5%	35.4%	41.9%	36.8%
Over 100% of Median	53.1%	57.1%	59.5%	64.6%	58.1%	63.2%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
First-time Home Buyer[2]	25.4%	25.4%				
Race/National Origin of Borrower						
White	76.2%	83.0%	82.1%	85.2%	80.8%	84.8%
African American	5.2%	2.9%	3.3%	2.3%	3.7%	2.4%
Hispanic	8.9%	5.4%	5.6%	3.7%	6.4%	4.0%
Asian or Pacific Islander	5.4%	4.3%	4.8%	3.6%	4.9%	3.7%
American Indian or Alaskan Native	0.3%	0.2%	0.3%	0.2%	0.3%	0.2%
Other	1.4%	1.7%	1.1%	2.3%	1.2%	2.2%
Different Races	2.5%	2.5%	2.7%	2.7%	2.6%	2.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Age of Borrower						
Under 30	15.9%	12.7%	5.2%	4.6%	7.6%	6.2%
30-39	27.7%	22.4%	25.3%	23.0%	25.9%	22.9%
40 and Over	40.1%	38.4%	62.1%	63.4%	57.0%	58.4%
Unknown	16.4%	26.4%	7.4%	9.0%	9.5%	12.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gender of Borrower(s)						
All Male	24.7%	20.8%	18.2%	16.7%	19.7%	17.5%
All Female	21.0%	16.3%	16.7%	14.2%	17.7%	14.6%
Male and Female	39.8%	42.9%	56.2%	62.0%	52.4%	58.2%
Unknown	14.5%	20.0%	8.9%	7.1%	10.2%	9.7%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: HUD analysis of GSE Public Use Data Base loan-level data. Corresponding data for 2005 is presented in Table 7.

[1] Interpreted as follows: 12.7 percent of home purchase loans purchased by Fannie Mae in 2003 had loan-to-value ratios over 95 percent.

[2] From Table 9 of Fannie Mae's and Freddie Mac's Annual Housing Activities Reports. Excludes mortgages with missing informat

Table B.8

Borrower and Loan Characteristics of Mortgages Purchased by the GSEs on One-Family Owner-Occupied Properties, 2004

Loan and Borrower Characteristics	Home Purchase		Refinance/Other		Total	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Number of Loans	1,666,118	1,098,911	2,279,238	1,676,101	3,945,356	2,775,012
Loan-to-Value Ratio						
Over 95%	14.0% [1]	2.2%	0.6%	0.1%	6.0%	0.9%
91-95%	11.0%	12.8%	2.0%	3.2%	5.6%	6.9%
81-90%	10.1%	11.1%	11.7%	12.9%	11.0%	12.2%
80% or Less	64.9%	73.8%	85.8%	83.9%	77.3%	80.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income of Borrower(s)						
60% of Area Median or Below	15.9%	12.9%	14.4%	13.7%	15.0%	13.4%
61-100% of Median	30.8%	29.3%	31.7%	30.0%	31.3%	29.8%
Below Area Median	46.7%	42.3%	46.1%	43.8%	46.4%	43.2%
Over 100% of Median	53.3%	57.7%	53.9%	56.2%	53.6%	56.8%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
First-time Home Buyer[2]	36.7%	22.7%				
Race/National Origin of Borrower						
White	75.0%	79.6%	76.9%	80.5%	76.1%	80.1%
African American	6.1%	4.6%	6.4%	5.0%	6.3%	4.8%
Hispanic	10.7%	7.0%	9.5%	6.7%	10.0%	6.8%
Asian or Pacific Islander	5.3%	5.7%	4.4%	4.7%	4.8%	5.1%
American Indian or Alaskan Native	0.3%	0.4%	0.3%	0.4%	0.3%	0.4%
Other	0.1%	0.2%	0.2%	0.2%	0.1%	0.2%
Different Races	2.3%	2.5%	2.4%	2.5%	2.4%	2.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Age of Borrower						
Under 30	15.9%	10.4%	5.4%	4.0%	9.8%	6.6%
30-39	24.9%	18.9%	21.5%	16.8%	22.9%	17.7%
40 and Over	40.1%	31.4%	57.9%	46.6%	50.4%	40.6%
Unknown	19.1%	39.3%	15.2%	32.5%	16.9%	35.2%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gender of Borrower(s)						
All Male	28.2%	21.0%	24.1%	17.9%	25.9%	19.1%
All Female	23.2%	16.4%	21.2%	15.0%	22.0%	15.6%
Male and Female	39.8%	38.6%	48.4%	46.1%	44.8%	43.1%
Unknown	8.8%	24.0%	6.3%	21.0%	7.3%	22.2%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: HUD analysis of GSE Public Use Data Base loan-level data. Corresponding data for 2005 is presented in Table 7.

[1] Interpreted as follows: 14.0 percent of home purchase loans purchased by Fannie Mae in 2004 had loan-to-value ratios over 95 percent.

[2] From Table 9 of Fannie Mae's and Freddie Mac's Annual Housing Activities Reports. Excludes mortgages with missing informat

Table B.9

Census Tract Characteristics of Mortgages on One-Family Owner-Occupied Properties Purchased by the GSEs, 2001

Census Tract Characteristics	Home Purchase Mortgages		Refinance Mortgages		Total	
	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Median Income of Tract						
80% of Area Median or Below	10.3% [1]	9.1%	8.9%	8.5%	9.5%	8.7%
81-120% of Median	53.4%	53.3%	55.8%	57.3%	54.9%	55.8%
Over 120% of Median	36.3%	37.6%	35.3%	34.3%	35.7%	35.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Minority Composition of Tract						
Less Than 10% Minority	52.5%	58.0%	57.5%	62.8%	55.6%	61.0%
10-30% Minority	31.2%	29.6%	28.0%	25.4%	29.2%	26.9%
Over 30% Minority	16.3%	12.4%	14.5%	11.8%	15.2%	12.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Percent in Low-income**and** High-minority Tracts	5.5%	4.2%	4.4%	3.7%	4.8%	3.9%
Underserved Areas	27.0%	24.0%	25.7%	24.8%	26.2%	0.0%

Source: HUD analysis of GSE Public Use Data Base loan-level data. Corresponding data for 2005 is presented in Table 9.

[1] Interpreted as follows: 10.3 percent of home purchase loans purchased by Fannie Mae in 2001 were for properties in census tracts with median income no greater than 80 percent of area median income.

Table B.10

Census Tract Characteristics of Mortgages on One-Family Owner-Occupied Properties Purchased by the GSEs, 2002

	Home Purchase Mortgages		Refinance Mortgages		Total	
Census Tract Characteristics	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Median Income of Tract						
80% of Area Median or Below	11.3% [1]	11.4%	8.2%	8.3%	9.2%	9.2%
81-120% of Median	54.7%	55.2%	53.9%	54.8%	54.2%	54.9%
Over 120% of Median	34.1%	33.4%	37.9%	36.8%	36.6%	35.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Minority Composition of Tract						
Less Than 10% Minority	50.3%	54.4%	56.8%	60.7%	54.7%	58.9%
10-30% Minority	31.6%	29.4%	28.8%	26.7%	29.7%	27.5%
Over 30% Minority	18.1%	16.2%	14.4%	12.6%	15.6%	13.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Percent in Low-income **and** High-minority Tracts	6.1%	5.9%	4.1%	4.3%	4.8%	4.4%
Underserved Areas	30.1%	29.1%	24.4%	24.1%	26.3%	25.5%

Source: HUD analysis of GSE Public Use Data Base loan-level data. Corresponding data for 2005 is presented in Table 9.

[1] Interpreted as follows: 11.3 percent of home purchase loans purchased by Fannie Mae in 2002 were for properties in census tracts with median income no greater than 80 percent of area median income.

Table B.11

Census Tract Characteristics of Mortgages on One-Family Owner-Occupied Properties Purchased by the GSEs, 2003

	Home Purchase Mortgages		Refinance Mortgages		Total	
Census Tract Characteristics	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Median Income of Tract						
80% of Area Median or Below	11.2% [1]	10.8%	8.2%	7.3%	8.9%	8.0%
81-120% of Median	55.8%	55.9%	53.6%	54.3%	54.1%	54.6%
Over 120% of Median	33.0%	33.3%	38.1%	38.5%	37.0%	37.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Minority Composition of Tract						
Less Than 10% Minority	33.6%	39.4%	38.3%	45.3%	37.2%	44.1%
10-30% Minority	37.2%	35.8%	36.7%	35.5%	36.8%	35.6%
Over 30% Minority	29.2%	24.8%	25.0%	19.2%	26.0%	20.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Percent in Low-income **and** High-minority Tracts	7.1%	6.5%	4.9%	3.8%	5.4%	4.8%
Underserved Areas	29.7%	27.6%	24.4%	21.6%	25.6%	22.8%

Source: HUD analysis of GSE Public Use Data Base loan-level data. Corresponding data for 2005 is presented in Table 9.

[1] Interpreted as follows: 11.2 percent of home purchase loans purchased by Fannie Mae in 2003 were for properties in census tracts with median income no greater than 80 percent of area median income.

Table B.12

Census Tract Characteristics of Mortgages on One-Family Owner-Occupied Properties Purchased by the GSEs, 2004

	Home Purchase Mortgages		Refinance Mortgages		Total	
Census Tract Characteristics	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Median Income of Tract						
80% of Area Median or Below	12.0% [1]	11.2%	11.6%	11.0%	11.7%	11.1%
81-120% of Median	57.2%	56.5%	57.1%	57.3%	57.1%	57.0%
Over 120% of Median	30.8%	32.2%	31.4%	31.8%	31.1%	32.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Minority Composition of Tract						
Less Than 10% Minority	34.3%	36.8%	34.7%	38.7%	34.5%	37.9%
10-30% Minority	36.8%	36.3%	33.3%	33.4%	34.8%	34.6%
Over 30% Minority	28.9%	26.9%	32.1%	28.0%	30.7%	27.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Percent in Low-income**and** High-minority Tracts	7.6%	7.0%	7.6%	6.8%	7.6%	6.9%
Underserved Areas	31.2%	29.2%	31.8%	29.6%	31.5%	29.4%

Source: HUD analysis of GSE Public Use Data Base loan-level data. Corresponding data for 2005 is presented in Table 9.

[1] Interpreted as follows: 12.0 percent of home purchase loans purchased by Fannie Mae in 2004 were for properties in census tracts with median income no greater than 80 percent of area median income.

Housing Finance
WORKING PAPER SERIES[1]

HF-017 **Goal Performance and Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac, 2001-2005,** *by Paul B. Manchester,* May 2007.

This paper (an update of HF-015) analyzes the performance of Fannie Mae and Freddie Mac, the two major Government-Sponsored Enterprises (GSEs) in the conventional secondary mortgage market, in meeting the housing goals established by HUD for 2001-05. In 2004 HUD also established subgoals for GSE acquisitions of home purchase mortgages on properties in metropolitan areas for 2005-08, and this paper reports results for these subgoals in 2005. The paper also contains detailed information on borrower, locational, and loan characteristics of single-family mortgages purchased by the GSEs in this period. The report is based on the loan-level data that the GSEs submit annually to the Department. The paper finds that, with one exception, the GSEs passed all of their housing goals in 2001-05 and generally achieved the highest levels of performance on the housing goals to date in 2005. Also, in 2005 Freddie Mac passed all three home purchase subgoals, while Fannie Mae passed the underserved areas and special affordable home purchase subgoals, but fell short on the low- and moderate-income home purchase subgoal.

HF-016 **Are Rejected Households Credit-Constrained Or Simply Less Creditworthy?,** *by Darryl E. Getter,* June 2002.

This paper re-examines consumer participation in credit markets looking specifically at issues related to the market treatment of borrowers of different credit risk. The traditional credit-rationing literature describes some borrowers as being “credit-constrained” as a result of creditors not being able to determine their future income prospects. However, this paper presents evidence that most rejected borrowers have experienced delinquency problems in the past year and/or filed for bankruptcy; therefore, rejected borrowers are often of lower credit quality. Furthermore, a substantial amount of credit has been made available over the past few years, and the lending industry has developed credit and mortgage scoring techniques that allow it to price the credit risk of individual borrowers. As a result, credit has been made to risky borrowers although they must pay higher prices for it. The analysis also shows that creditworthy minorities are not more likely to pay unusually high loan rates. Finally, borrowers that are considered to be creditworthy yet still pay high interest rates are also the ones who report they do little shopping for a loan. In addition to mortgage credit, automobile and revolving credit markets are also analyzed in this study.

HF-015 **Goal Performance and Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac, 1998-2000,** *by Paul B. Manchester,* May 2002.

This paper (an update of HF-006) analyzes the performance of Fannie Mae and Freddie Mac, the two major Government-Sponsored Enterprises (GSEs) in the conventional secondary mortgage market, in meeting the housing goals established by HUD for 1998-2000. It also presents

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information on detailed borrower, locational, and loan characteristics of single-family mortgages purchased by the GSEs in this period. The report is based on the loan-level data that the GSEs submit annually to the Department. The paper finds that the GSEs passed all of their housing goals in 1998-2000 and generally achieved the highest levels of performance on the housing goals to date in 2000. It also finds that in most areas, by 2000 Freddie Mac had eliminated the performance gap with Fannie Mae that had existed in previous years.

HF-014 **Black and White Disparities in Subprime Mortgage Refinance Lending**, *by Randall M. Scheessele*, April 2002.

This paper examines patterns in Home Mortgage Disclosure Act (HMDA) data in an effort to understand the types of neighborhoods with high concentrations of subprime refinance lending. The HMDA data clearly demonstrate the growth in subprime refinance lending and its disproportionate impact on low-income and predominantly black neighborhoods throughout the nation. Since home equity is typically the main source of wealth for borrowers in low-income and minority neighborhoods, it is essential that creditworthy borrowers in these neighborhoods have access to lower cost prime credit and weaker credit borrowers in these neighborhoods have access to subprime credit that is priced appropriately to their credit circumstances.

HF-013 **The GSEs' Funding of Affordable Loans: A 2000 Update,** *by Harold Bunce*, April 2002.

This study compares the borrower and neighborhood characteristics of single-family mortgages purchased by Fannie Mae and Freddie Mac between 1992 and 2000 with the characteristics of loans originated in the primary market during the same time period. The study finds that both Fannie Mae and Freddie Mac improved their affordable lending performance during the 1990s, but they continued in the year 2000 to underperform the conventional conforming market in funding mortgages for lower-income borrowers and for properties located in low-income and high-minority census tracts (i.e., underserved areas). Furthermore, the GSEs account for a significant share of the total market for home purchase loans, but their market share for each of the affordable lending categories is much less than their share of the overall market, and they contribute only a small share of funding in important market segments such as the market serving first-time minority homebuyers. The GSEs' small market share in the first-time homebuyer market could be due to the preponderance of high (over-20-percent) downpayment loans in their mortgage purchases, although further study is needed to fully explain the reasons for their limited role in these markets.

HF-012 **The GSEs' Funding of Affordable Loans: A 1999 Update,** *by Harold Bunce,* December 2000.

This study examines the borrower and neighborhood characteristics of single-family mortgages purchased by Fannie Mae and Freddie Mac, the two major Government Sponsored Enterprises (GSEs) in the conventional secondary market. The purpose of the study is to determine whether Fannie Mae and Freddie Mac lead or lag the overall conventional conforming mortgage market in funding loans for low-income borrowers and other groups who historically have not been well served by the mortgage market. This study is the third in a series of working papers examining the affordable lending performance of the GSEs. There are two main findings. First, while both GSEs have improved their affordable lending performance since 1992, they continue to lag the conventional conforming market in funding mortgages for lower-income borrowers and for properties located in low-income and high-minority census tracts (i.e., underserved areas).

Second, Fannie Mae has traditionally out-performed Freddie Mac in purchasing loans for lower-income borrowers and underserved neighborhoods; however, the relative performance of the two GSEs has recently shifted, as Freddie Mac's performance slightly surpassed Fannie Mae's during 1999.

HF-011 **An Analysis of GSE Purchases of Mortgages for African-American Borrowers and Their Neighborhoods,** *by Harold Bunce,* November 2000.

This study examines the record of Fannie Mae and Freddie Mac in providing mortgage funds for African-American borrowers and their neighborhoods. The study has four main findings. First, Fannie Mae has traditionally out-performed Freddie Mac in purchasing loans for African-American borrowers and their neighborhoods; however, between 1997 and 1999, there was a shift in the relative performance of the two GSEs, as Fannie Mae's performance declined and Freddie Mac's performance increased. Second, both GSEs lag the conventional conforming market in funding mortgages for African-American borrowers and their neighborhoods. Third, the GSEs' shares of mortgage originations for both upper-income and lower-income African-American borrowers appear low. The GSEs' market shares for loans to upper-income African-American borrowers are similar to their market shares for loans to very low-income White borrowers. Finally, the market share data reported in this paper illustrate the relatively small role that the GSEs play in funding loans for African-American borrowers in the overall (conventional and government) mortgage market.

HF-010 **The Property Owners and Managers Survey and the Multifamily Housing Finance System,** *by William Segal,* September 2000.

The HUD Property Owners and Managers Survey (POMS) can be utilized to analyze a number of policy issues relating to financing for rental properties. In this paper, adjustment techniques to correct for the effects of data truncation are developed and are applied to derive estimates of number of units per property, the size of the multifamily mortgage stock, and the magnitude of annual mortgage origination volume, a critical parameter for benchmarking the performance of Fannie Mae and Freddie Mac. Mortgage origination volume for 1995 is estimated using both a "hot-deck" and a regression-based imputation approach. Results from the internal POMS file at the Census Bureau as well from the public-use version of the file are included here. Advantages and shortcomings of POMS in relation to a number of other multifamily data sources are noted, as are possible directions for future research.

HF-009 **1998 HMDA Highlights,** *by Randall M. Scheessele,* October 1999.

This paper describes home purchase and refinance mortgage market trends at the national level using HMDA data on mortgage denials and originations from 1998 and earlier. An important contribution of the paper is the recognition of manufactured home and subprime lenders that report to HMDA and their effect on mortgage market trends. The paper provides a list of 21 lenders that specialize in manufactured home lending and 200 lenders that specialize in subprime lending. The paper finds that manufacture home loan applications and their increasing denial rates were the primary reason for the increasing conventional denial rat since 1993. The paper also finds that conventional prime home purchase lending to minority and lower-income borrowers increased substantially between 1993 and 1994 but growth in lending to these groups since 1994 was attributable to growth in FHA, manufactured home, and subprime lending.

HF-008 **Do FHA Multifamily Mortgage Insurance Programs Provide Affordable Housing and Serve Underserved Areas? An Analysis of FHA's Fiscal Year 1997 Book of Business and Comparison with the GSEs,** *by Edward J. Szymanoski and Susan J. Donahue,* October 1999.

This paper analyzes the rent affordability of about 67,500 unassisted multifamily units, which were insured by FHA during Fiscal Year 1997, and the proportion of these units located in *underserved areas*. In addition, the paper also compares FHA's 1997 multifamily loans purchased by Fannie Mae and Freddie Mac (the government-sponsored enterprises, or GSEs) in regard to rent affordability and proportion of units located in underserved areas. The analysis shows that FHA is providing a substantial amount of modest cost rental housing and serving underserved areas with its unassisted multifamily mortgage insurance programs. About 95 percent of the FHA units in this study (including new construction and existing housing) were affordable at 100 percent of area median income, and over 40 percent were affordable at 60 percent of area median income. About 40 percent of the FHA units in the study were located in underserved areas. In drawing comparison between FHA and the GSEs, the paper first notes the differences as well as similarities between the multifamily programs of these respective agencies- for example, FHA offers higher loan-to-value ratios, lower debt service coverage ratios, and longer fixed-rate mortgage terms than do the GSEs. These underwriting differences notwithstanding, FHA's affordability and underserved area percentages for FY 1997 were very similar to those of comparable Fannie Mae and Freddie Mac mortgage purchases.

HF-007 **HMDA Coverage of the Mortgage Market,** *by Randall M. Scheessele,* July 1998.

This paper examines the coverage of HMDA data by taking advantage of loan-level data reported to HUD on mortgages insured by FHA and mortgages purchased by the GSEs. The FHA and GSE databases provide an accurate standard against which HMDA data on FHA and GSE loans can be measured. The results of this paper provide background for using HMDA data to estimate the market share of loans for FHA and the GSEs by reporting HMDA coverage rates for FHA originations and GSE acquisitions of mortgages for 1993 through 1996. The paper finds that HMDA data under-reports GSE acquisitions mainly because a few large lenders fail to correctly report the sale of a significant number of their loans to the GSEs. Notwithstanding coverage issues, HMDA data continues to be the most comprehensive data base for measuring primary and secondary mortgage market activity.

HF-006 **Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac: 1996-97 Update,** *by Paul B. Manchester,* August 1998.

This paper (an update of HF-003) examines the mortgages purchased by Fannie Mae and Freddie Mac, the two major Government-Sponsored Enterprises (GSEs) in the conventional secondary mortgage market. The analyses focus on detailed borrower, locational, and loan characteristics of such mortgages in the 1996-97 period. In general, the report is based on the loan-level data that the GSEs submit annually to the Department. The paper finds that the GSEs generally increased their performance on the goals established by HUD in 1995 and that they surpassed all of their 1996-97 goals, with Fannie Mae's performance exceeding Freddie Mac's performance on each of the goals in both years.

HF-005 **The GSEs' Funding of Affordable Loans: 1996 Update**, *by Harold L. Bunce and Randall M. Scheessele,* July 1998.

This paper (an update of HF-001) examines the borrower and neighborhood characteristics of (GSEs) in the conventional secondary mortgage market. The analysis is based on Home Mortgage Disclosure Act (HMDA) data on home purchase loans originated in metropolitan areas between 1992 and 1996. The GSEs' mortgage purchases are compared to all mortgages originated in the conventional conforming loan market, including originations retained in portfolio by banks and thrift institutions. The paper finds that there continues to be room for further increases in purchases of affordable loans by Fannie Mae and, especially, Freddie Mac.

HF-004 **The GSEs' Purchases of Single-Family Rental Property Mortgages**, *by Theresa R. DiVenti,* March 1998.

This paper examines the single-family rental mortgages purchased by Fannie Mae and Freddie Mac, the two major Government-Sponsored Enterprises (GSEs) in the conventional secondary mortgage market. These properties are the "mom and pop shops" of the rental market, meaning they are small and largely individually owned and managed. To date there has been little research on this segment of the rental market. This analysis looks at neighborhood, affordability, borrower, and financial characteristics of the GSEs' mortgage purchases. The study finds that, while single-family rental properties are a small portion of the GSEs' overall business, they are a large and important segment of the rental stock for lower income families.

HF-003 **Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac, 1993-95,** *by Paul B. Manchester, Sue George Neal, and Harold L. Bunce,* March 1998.

This paper examines the mortgages purchased by Fannie Mae and Freddie Mac, the two major Government-Sponsored Enterprises (GSEs) in the conventional secondary mortgage market. The analyses focus on detailed borrower, locational, and loan characteristics of such mortgages in the "1993-95 transition period," established by Congress in the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. In general, the report is based on the loan-level data that the GSEs submit annually to the Department. The paper finds that although there were significant increases between 1993 and 1995 in the GSEs' funding of loans for groups traditionally underserved by the mortgage market, their support is generally less than that provided by portfolio lenders.

HF-002 **The Multifamily Secondary Mortgage Market: The Role of Government-Sponsored Enterprises**, *by William Segal and Edward J. Szymanoski,* March 1997.

This paper examines the performance of Fannie Mae and Freddie Mac in enhancing the liquidity and efficiency of the affordable segment of the multifamily mortgage market. The paper focuses specifically on the period since 1993, when HUD established affordable housing goals for these two Government-Sponsored Enterprises (GSEs). A private secondary mortgage market has developed to address the finance needs of higher end properties; yet a comparable market for mortgages on properties affordable to lower-income families lags in development. Placed within a wider market context, it is found that the GSEs have been cautious in their affordable multifamily transactions. It is concluded that the GSEs have the potential to do more to enhance the affordable segment of the multifamily mortgage market.

HF-001 **The GSEs’ Funding of Affordable Loans**, *by Harold L. Bunce and Randall M. Scheessele*, December 1996.

This paper examines the borrower and neighborhood characteristics of mortgages purchased by Fannie Mae and Freddie Mac, the two major Government-Sponsored Enterprises (GSEs) in the conventional secondary mortgage market. The GSEs' mortgage purchases are compared to all mortgages originated in the conventional conforming loan market, including originations retained in portfolio by banks and thrift institutions. The analysis is based on Home Mortgage Disclosure Act (HMDA) data on home purchase loans originated in metropolitan areas between 1992 and 1995. The paper finds that there is room for further increases in purchases of affordable loans by Fannie Mae and, especially, Freddie Mac.