This document is scheduled to be published in the
Federal Register on 09/11/2014 and available online at
http://federalregister.gov/a/2014-21118, and on FDsys.gov

<PRORULE>

<PREAMB>

BILLING CODE: 8070-01-P

FEDERAL HOUSING FINANCE AGENCY

12 CFR Parts 1282

RIN 2590-AA65

2015-2017 Enterprise Housing Goals

AGENCY: Federal Housing Finance Agency.

ACTION: Proposed rule.

SUMMARY: The Federal Housing Finance Agency (FHFA) is issuing a proposed rule with request for comments regarding the housing goals for Fannie Mae and Freddie Mac (the Enterprises). The Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended, (the Safety and Soundness Act) requires FHFA to establish annual housing goals for mortgages purchased by the Enterprises. The housing goals include separate categories for single-family and multifamily mortgages on housing that is affordable to low-income and very low-income families, among other categories. The existing housing goals for the Enterprises remain in effect through the end of 2014.

This proposed rule would update the benchmark levels for each of the housing goals and subgoals for 2015 through 2017. The proposed rule would also establish a new housing subgoal for small multifamily properties affordable to low-income families.

The proposed rule presents three alternatives for determining whether an Enterprise has met the single-family housing goals. The first option would keep the current approach, which compares the performance of the Enterprise both to a benchmark level and to a retrospective market level. The second option would use a benchmark level only, and the third option would use a retrospective market level only.

The proposed rule would also revise a number of other provisions in order to provide greater clarity on the mortgages eligible for goal or subgoal categories. Specific changes include rules for counting shared living spaces such as student housing and rules for skilled nursing and seniors housing units. In addition, the proposed rule would make a number of clarifying and conforming changes, including revisions to the definitions of "rent" and "utilities" and to the rules for determining affordability of both single-family and multifamily units.

FHFA also plans to require more detailed Enterprise reporting on their purchases of mortgages on single-family rental housing. Finally, the proposed rule would establish more transparent agency procedures if FHFA issues guidance on the housing goals in the future.

DATES: FHFA will accept written comments on the proposed rule on or before October 28, 2014.

ADDRESSES: You may submit your comments on the proposed rule, identified by regulatory information number (RIN) 2590-AA65, by any one of the following methods:

- Agency website: www.fhfa.gov/open-for-comment-or-input.
- Federal eRulemaking Portal: http://www.regulations.gov. Follow the instructions for submitting comments. If you submit your comment to the Federal eRulemaking

Portal, please also send it by e-mail to FHFA at RegComments@fhfa.gov to ensure timely receipt by FHFA. Include the following information in the subject line of your submission: Comments/RIN 2590-AA65.

- Hand Delivered/Courier: The hand delivery address is: Alfred M. Pollard, General Counsel, Attention: Comments/RIN 2590-AA65, Federal Housing Finance Agency, Eighth Floor, 400 Seventh Street, SW., Washington, DC 20024. Deliver the package at the Seventh Street entrance Guard Desk, First Floor, on business days between 9 a.m. and 5 p.m.
- U.S. Mail, United Parcel Service, Federal Express, or Other Mail Service: The mailing address for comments is: Alfred M. Pollard, General Counsel, Attention: Comments/RIN 2590-AA65, Federal Housing Finance Agency, Eighth Floor, 400 Seventh Street, SW., Washington, DC 20024. Please note that all mail sent to FHFA via U.S. Mail is routed through a national irradiation facility, a process that may delay delivery by approximately two weeks.

FOR FURTHER INFORMATION CONTACT: Dr. Nayantara Hensel, Associate Director, Division of Housing Mission and Goals, at (202) 649-3122; Michael Groarke, Senior Policy Analyst, Division of Housing Mission and Goals, at (202) 649-3125; Kevin Sheehan, Office of General Counsel, at (202) 649-3086. These are not toll-free numbers. The mailing address for each contact is: Federal Housing Finance Agency, 400 Seventh Street, SW., Washington, DC 20024. The telephone number for the Telecommunications Device for the Deaf is (800) 877-8339.

SUPPLEMENTARY INFORMATION:

I. Comments

FHFA invites comments on all aspects of the proposed rule, and will take all comments into consideration before issuing the final regulation. Copies of all comments will be posted without change, including any personal information you provide such as your name, address, e-mail address and telephone number, on the FHFA website at http://www.fhfa.gov. In addition, copies of all comments received will be available for examination by the public on business days between the hours of 10 a.m. and 3 p.m., at the Federal Housing Finance Agency, 400 Seventh Street, SW., Washington, DC 20024. To make an appointment to inspect comments, please call the Office of General Counsel at (202) 649-3804.

Commenters are encouraged to review and comment on all aspects of the proposed rule, including the single-family benchmark levels, the possible changes to the retrospective market approach, the multifamily benchmark levels, the new low-income housing subgoal for small multifamily properties, and other changes to the regulation. FHFA also requests comments on the two issues described in Section IX.

II. Background

A. Statutory and Regulatory Background for the Existing Housing Goals

The Safety and Soundness Act requires FHFA to establish several annual housing goals for both single-family and multifamily mortgages purchased by Fannie Mae and Freddie Mac.[1] The annual housing goals are one measure of the extent to which the Enterprises are meeting their public purposes, which include "an affirmative obligation to facilitate the financing of affordable housing for low- and moderate-income families in a

[1] See 12 U.S.C. 4561(a).

manner consistent with their overall public purposes, while maintaining a strong financial condition and a reasonable economic return."[2]

The housing goals provisions of the Safety and Soundness Act were substantially revised in 2008 with the enactment of the Housing and Economic Recovery Act, which amended the Safety and Soundness Act.[3] Under this revised structure, FHFA established housing goals for the Enterprises for 2010 and 2011 in a final rule published on September 14, 2010.[4] FHFA established new housing goals levels for the Enterprises for 2012 through 2014 in a final rule published on November 13, 2012.[5] The housing goals established by FHFA in these two prior rulemakings include four goals and one subgoal for single-family, owner-occupied housing and one goal and one subgoal for multifamily housing.

Single-family goals. The single-family goals defined under the Safety and Soundness Act include separate categories for home purchase mortgages for low-income families, very low-income families, and families that reside in low-income areas. Performance on the single-family home purchase goals is measured as the percentage of the total home purchase mortgages purchased by an Enterprise each year that qualifies for each goal or subgoal. There is also a separate goal for refinancing mortgages for low-income families, and performance on the refinancing goal is determined in a similar way.

Under the Safety and Soundness Act, the single-family housing goals are limited to mortgages on owner-occupied housing with one to four units total. The single-family goals cover "conventional, conforming mortgages," with the "conventional" component

[2] See 12 U.S.C. 4501(7).
[3] Housing and Economic Recovery Act of 2008, Pub. L. No. 110-289, 122 Stat. 2654 (July 30, 2008).
[4] See 75 FR 55892.
[5] See 77 FR 67535.

meaning not insured or guaranteed by the Federal Housing Administration or other government agency and the "conforming" component meaning those mortgages with a principal balance that does not exceed the loan limits for Enterprise mortgages.

The single-family goals established by FHFA in 2010 and 2012 compare the goal-qualifying share of the Enterprise's mortgage purchases to two separate measures: a "benchmark level" and a "market level." The "benchmark level" is set prospectively by rulemaking, based on various factors, including FHFA's forecast of the goal-qualifying share of the overall market. The "market level" is determined retrospectively each year, based on the actual goal-qualifying share of the overall market as measured by the Home Mortgage Disclosure Act (HMDA) data for that year. The "overall market" that FHFA uses for purposes of both the prospective market forecasts and the retrospective market measurement consists of all single-family owner-occupied conventional conforming mortgages that would be eligible for purchase by either Enterprise. It includes loans actually purchased by the Enterprises as well as comparable loans held in a lender's portfolio. It also includes any loans that are part of a private label security (PLS), though very few such securities have been issued for conventional conforming mortgages since 2008.

Under this two-part approach, determining whether an Enterprise has met the single-family goal requirements for a specified year requires looking at both the benchmark level and the market level measures. In order to meet a single-family housing goal or subgoal, the actual percentage of mortgage purchases by an Enterprise that meet each goal or subgoal must exceed either the benchmark level or the market level for that year.

Multifamily goals. The multifamily goals defined under the Safety and Soundness Act include separate categories for mortgages on multifamily properties (i.e., properties with five or more units) with rental units affordable to low-income families and very low-income families. The multifamily goals established by FHFA in 2010 and 2012, as required by the Safety and Soundness Act, evaluate the performance of the Enterprises based on numeric targets, not percentages, for the number of affordable units in properties backed by mortgages purchased by an Enterprise. FHFA has not established a retrospective market level measure for the multifamily goals and subgoals, due to a lack of comprehensive data about the multifamily market such as that provided by HMDA for single-family mortgages. As a result, FHFA measures Enterprise multifamily goals performance against the benchmark levels only.

B. Adjusting the Housing Goals

Under the housing goals regulation first established by FHFA in 2010, as well as under this proposed rule, FHFA may adjust the benchmark levels for any of the single-family or multifamily housing goals in a particular year without going through notice and comment rulemaking based on (1) market and economic conditions or the financial condition of the Enterprise, or (2) a determination by FHFA that "efforts to meet the goal or subgoal would result in the constraint of liquidity, over-investment in certain market segments, or other consequences contrary to the intent of the Safety and Soundness Act or the purposes of the Charter Acts."[6] The regulation also takes into account the possibility that achievement of a particular housing goal may or may not have been feasible for the Enterprise. If FHFA determines that a housing goal was not feasible for

[6] 12 CFR 1282.14(d).

the Enterprise to achieve, then the regulation provides for no further enforcement of that housing goal for that year.[7]

If, after publication of a final rule establishing the housing goals for 2015 through 2017, FHFA determines that any of the single-family or multifamily housing goals should be adjusted in light of market conditions, to ensure the safety and soundness of the Enterprises, or for any other reason, FHFA will take any steps that are necessary and appropriate to adjust that goal. Such steps could include adjusting the benchmark levels through the processes in the existing regulation or establishing new or revised housing goal levels through notice and comment rulemaking.

C. Housing Goals under Conservatorship

On September 6, 2008, FHFA placed each Enterprise into conservatorship. Although the Enterprises remain in conservatorship at this time, they continue to have the mission of supporting a stable and liquid national market for residential mortgage financing. FHFA has continued to establish annual housing goals for the Enterprises and to assess their performance under the housing goals each year during conservatorship.

III. Summary of Proposed Rule

A. Benchmark Levels for the Single-Family Housing Goals

This proposed rule would establish the benchmark levels for the single-family housing goals and subgoal for 2015-2017 as follows:

---

[7] 12 CFR 1282.21(a).

Goal	Criteria	Current benchmark level for 2012-2014	Proposed benchmark level for 2015-2017
Low-Income Home Purchase Goal	Home purchase mortgages on single-family, owner-occupied properties with borrowers with incomes no greater than 80 percent of area median income	23 percent	23 percent
Very Low-Income Home Purchase Goal	Home purchase mortgages on single-family, owner-occupied properties with borrowers with incomes no greater than 50 percent of area median income	7 percent	7 percent
Low-Income Areas Home Purchase Subgoal	Home purchase mortgages on single-family, owner-occupied properties with: • Borrowers in census tracts with tract median income of no greater than 80 percent of area median income; and • Borrowers with income no greater than 100 percent of area median income in census tracts where (i) tract income is less than 100 percent of area median income, and (ii) minorities comprise at least 30 percent of the tract population	11 percent	14 percent
Low-Income Refinancing Goal	Refinancing mortgages on single-family, owner-occupied properties with borrowers with incomes no greater than 80 percent of area median income	20 percent	27 percent

B. Proposed Alternatives to the Market-Based Retrospective Approach

The proposed rule would adopt one of three different approaches for determining whether an Enterprise has met one of the single-family housing goals. Under the current regulation, the performance of the Enterprise on each single-family housing goal is compared to both a benchmark level and a retrospective market level. The first proposed alternative would maintain this approach. The second proposed alternative would evaluate the performance of the Enterprise based solely on a comparison to a benchmark level. The third proposed alternative would evaluate the performance of the Enterprise based solely on a comparison to a retrospective market level.

C. Multifamily Housing Goal Levels

The proposed rule would establish the levels for the multifamily goal and subgoal for 2015-2017 as follows:

Goal	Criteria	Current goal levels for 2014	Proposed goal levels for 2015	Proposed goal levels for 2016	Proposed goal levels for 2017
Low-Income Goal	Units affordable to families with incomes no greater than 80 percent of area median income in multifamily rental properties with mortgages purchased by an Enterprise	Fannie Mae: 250,000 units Freddie Mac: 200,000 units	Fannie Mae: 250,000 units Freddie Mac: 210,000 units	Fannie Mae: 250,000 units Freddie Mac: 220,000 units	Fannie Mae: 250,000 units Freddie Mac: 230,000 units
Very Low-Income Subgoal	Units affordable to families with incomes no greater than 50 percent of area median income in multifamily rental properties with mortgages purchased by an Enterprise	Fannie Mae: 60,000 units Freddie Mac: 40,000 units	Fannie Mae: 60,000 units Freddie Mac: 43,000 units	Fannie Mae: 60,000 units Freddie Mac: 46,000 units	Fannie Mae: 60,000 units Freddie Mac: 50,000 units

D. Small Multifamily Housing Subgoal Levels

The proposed rule would also establish for the first time a separate subgoal for rental units that are affordable to families with incomes no greater than 80 percent of area median income in small multifamily properties with mortgages purchased by an Enterprise. The proposed rule would establish the levels for the small multifamily subgoal for 2015-2017 as follows:

Goal	**Criteria**	**Current goal levels for 2014**	**Proposed goal levels for 2015**	**Proposed goal levels for 2016**	**Proposed goal levels for 2017**
Low-Income Subgoal for Small Multifamily	Units affordable to families with incomes no greater than 80 percent of area median income in small multifamily rental properties (5 to 50 units) with mortgages purchased by an Enterprise	None	Fannie Mae: 20,000 units Freddie Mac: 5,000 units	Fannie Mae: 25,000 units Freddie Mac: 10,000 units	Fannie Mae: 30,000 units Freddie Mac: 15,000 units

E. Single-Family Rental Housing

The housing goals regulation currently requires the Enterprises to report to FHFA on all mortgage purchases. Starting in 2015, FHFA plans to revise the reports required under this existing authority so that the Enterprises provide more detailed information about their purchases of mortgages on single-family rental housing, including detailed affordability information.

F. Other Proposed Changes

The proposed rule would also make a number of changes and clarifications to the existing rules concerning whether a particular mortgage purchase may be counted for purposes of the housing goals. These changes include updating and clarifying definitions and other provisions to reflect current Enterprise lending programs and market practices. The proposed rule would incorporate existing FHFA guidance on the appropriate treatment of loans on senior housing and skilled nursing units. The proposed rule would also add transparency to agency guidance on issues that may arise under the housing goals by placing past and future guidance on the FHFA website.

IV. Single-Family Housing Goals

A. Factors Considered in Setting the Proposed Single-Family Housing Goal Levels

Section 1332(e)(2) of the Safety and Soundness Act requires FHFA to consider the following seven factors in setting the single-family housing goals:

1. National housing needs;
2. Economic, housing, and demographic conditions, including expected market developments;
3. The performance and effort of the Enterprises toward achieving the housing goals under this section in previous years;
4. The ability of the Enterprise to lead the industry in making mortgage credit available;
5. Such other reliable mortgage data as may be available;
6. The size of the purchase money conventional mortgage market, or refinance conventional mortgage market, as applicable, serving each of the types of families described, relative to the size of the overall purchase money mortgage market or the overall refinance mortgage market, respectively; and
7. The need to maintain the sound financial condition of the Enterprises.[8]

[8] 12 U.S.C. 4562(e)(2).

FHFA has considered each of these seven statutory factors in setting the proposed benchmark levels for each of the single-family housing goals and subgoal. Additional discussion of these single-family factors is contained in the **Appendix**.

Market estimation models. In setting the proposed benchmark levels, FHFA relies extensively on its projections of the estimated market performance for each goal or subgoal in the primary mortgage market. FHFA has developed market estimation models for determining these projections. Additional discussion of the market estimation models can be found in a research paper, available at http://www.fhfa.gov/PolicyProgramsResearch/Research/.

FHFA's market estimation models look at the relationship between (a) the actual historical market performance for each single-family housing goal, as calculated from HMDA data, and (b) the actual historical values for various factors that may influence the market performance, such as interest rates, inflation, house prices, home sales and the unemployment rate. The market estimation models then use forecasts for each of the variables influencing market performance to project an estimated market performance for each goal or subgoal. The models yield a point estimate which represents the best estimate of goal qualifying shares for each year (i.e., 2015, 2016, and 2017), as well as a range of predicted levels based on different confidence levels. The models produce ranges and estimates for each successive year. For example, the estimate for the low-income home purchase goal for 2015 is 20.9 percent, with a 95 percent confidence interval of plus or minus 6.7 percent. In other words, the model prediction is that there is a 95 percent chance that the actual market share in 2015 will be between 14.2 percent and 27.6 percent. The same forecast for 2017 is 19.8 percent, with a 95 percent confidence interval of plus or minus 9.0 percent. Thus, the model prediction range for 2017 is between 10.8 percent and 28.8 percent.

FHFA periodically updates the market estimation models to reflect new data. These updates may result in changes to the specific variables that are included in the model for each of the housing goals. The updates may also result in new estimates for the goal-qualifying share for one or more of the single-family housing goals. If the market estimation models are updated before publication of the final rule, FHFA will consider any such updates and the new estimates for the goal-qualifying shares of the market when establishing the benchmark levels for 2015 through 2017.

The market estimation models address four of the seven factors that FHFA is required to consider. The models are designed to measure the size of the single-family mortgage market (Factor 6), and in doing so they incorporate aspects of three of the other factors: Factor 1: National Housing Needs; Factor 2: Economic, Housing, and Demographic Conditions; and Factor 5: Other Mortgage Data. Information about economic and housing conditions, such as the unemployment rate, inflation, housing starts, home sales, and home prices are included in the market models, which estimate the market performance for 2015 through 2017. FHFA also considers various other mortgage data sources, including the Mortgage Bankers Association’s mortgage default survey, the National Association of Realtors’ Housing Affordability Index and Freddie Mac’s Primary Mortgage Market Survey.

Past performance. The past performance of the Enterprises on each of the single-family housing goals and subgoal, Factor 3 above, is also an important factor in setting the benchmark levels. Reviewing the actual performance of the Enterprises on each housing goal in previous years and comparing that performance to the performance of the overall market helps FHFA ensure that the benchmark levels are set at levels that are feasible for the Enterprises to achieve. For example, the market estimation models may not capture all of the factors that contribute to Enterprise performance, or FHFA's measurements of the market using HMDA data may not reflect the exact portion of the market that is eligible for purchase by the Enterprises. FHFA may rely more heavily on past Enterprise performance if the market estimation model yields results that are far above, or far below, the past performance of either Enterprise on a housing goal.

Other factors. FHFA has also considered the remaining two statutory factors in proposing these single-family housing goals: Factor 4: Ability to Lead the Industry and Factor 7: Need to Maintain Sound Financial Condition. FHFA's consideration of these factors takes into account the financial condition of the Enterprises, the importance of maintaining the Enterprises in sound and solvent financial condition, and the appropriate role of the Enterprises in relation to the overall mortgage market. The process of setting benchmark levels based on the recent performance of the Enterprises and on the past and expected performance of the overall market also contributes to FHFA's consideration of these required statutory factors.[9]

FHFA continues to monitor the activities of the Enterprises, both in FHFA's capacity as safety and soundness regulator and as conservator. If necessary, FHFA will

[9] In 2013, the Enterprises remained the largest issuers of mortgage-backed securities (MBS), guaranteeing 73 percent of single-family MBS, slightly above the average of 72 percent for 2008-2012, but above the average of 46 percent for 2004-2007, and above the average of 67 percent for 2000-2003. See Inside Mortgage Finance Publications, "Mortgage Market Statistical Annual," volume II, "The Secondary Mortgage Market," p.4 (2013 Edition); see also Inside MBS & ABS, p.4 (April 4, 2014).

make any appropriate changes in the housing goals to ensure the continued safety and soundness of the Enterprises.

B. Proposed Single-Family Benchmark Levels

1. Low-Income Home Purchase Goal

The low-income home purchase goal is based on the percentage of all single-family, owner-occupied home purchase mortgages purchased by an Enterprise that are for low-income families, defined as families with incomes less than or equal to 80 percent of the area median income.

The proposed rule would set the annual low-income home purchase housing goal benchmark level for 2015 through 2017 at 23 percent, which would be unchanged from the current 2014 benchmark level. FHFA's market model forecasts a declining proportion of home purchase mortgages for low-income families for these years. FHFA has not reduced the proposed benchmark level, however, in order to encourage the Enterprises to continue their efforts to promote safe and sustainable lending to low-income families. This may include any steps the Enterprises take to bring greater certainty to origination and servicing standards for lenders, any additional outreach to small and rural lenders and to state and local Housing Finance Agencies (HFAs), and any other efforts by the Enterprises to reach underserved creditworthy borrowers.

A summary of the past performance of the Enterprises on the low-income home purchase housing goal, including past benchmark levels and the size of the market in past years, appears in the **Appendix** in **Table 6**.

Market size. FHFA's forecast for the low-income share of the overall market for home purchase mortgages for 2015 through 2017 starts with a point estimate of 20.9

percent for 2015 and declines to a point estimate of 19.8 percent for 2017. These forecasts are significantly lower than the actual low-income share of the overall market for home purchase mortgages in 2010 through 2012 and are somewhat lower than FHFA's estimates of the low-income share of the market for 2013 and 2014. The actual low-income market shares for 2010 through 2012 are based on FHFA's analysis of the most recent HMDA data available and start at 27.2 percent in 2010, declining to 26.5 percent in 2011, and remaining essentially the same at 26.6 percent in 2012. FHFA has estimated the actual market shares for 2013 and 2014 using the market estimation models, because HMDA data for those years are not yet available. FHFA estimates that the low-income share of the overall market declined to 23.4 percent in 2013 and FHFA forecasts a further decline to 21.4 percent for 2014.

Past performance. The performance of the Enterprises on the low-income home purchase goal has followed a similar pattern as the overall market performance on the goal since 2010. Fannie Mae's performance on the low-income home purchase goal in 2010 was 25.1 percent and, in fact, increased slightly in 2011 and 2012. Fannie Mae's performance then declined to 23.8 percent in 2013. Freddie Mac's performance on the low-income home purchase goal in 2010 was 26.8 percent before declining to 23.3 percent in 2011, increasing to 24.4 percent in 2012, and declining to 21.8 percent in 2013.

Past benchmark levels. The benchmark level for the low-income home purchase housing goal in 2010 and 2011 was 27 percent. This level was very close to the actual low-income share of the overall market as measured by HMDA data for 2010 and 2011. The benchmark level for the low-income home purchase housing goal was lowered to 23 percent for 2012, 2013 and 2014. This new benchmark level was significantly lower than the actual low-income share of the overall market in 2012. FHFA estimates that the low-income share of the overall market was slightly higher than the benchmark level in 2013, and that the low-income share of the overall market will be below the 23 percent benchmark level in 2014.

Proposed benchmark levels. Although FHFA's market estimation model forecasts further declines in the low-income share of the overall home purchase mortgage market, the proposed rule would maintain the existing benchmark level of 23 percent for 2015 through 2017. FHFA is proposing this benchmark level in light of the current two-part process for evaluating Enterprise performance on the single-family housing goals, using both a benchmark level and a retrospective market level. If FHFA adopts an alternative approach that relies solely on benchmark levels, as described below in Section IV.C, FHFA may adopt a benchmark level in the final rule that is lower than the proposed benchmark level of 23 percent.

The market estimation model forecasts a range of possible market levels and, while the proposed benchmark level of 23 percent is above the point estimates for each year from 2015 through 2017, the proposed benchmark level is within the confidence interval range for those years. In addition, while the forecast of the market level declines each year from 2015 through 2017, the point estimate for 2015 is subject to less uncertainty than the point estimate for 2017. This supports setting the proposed benchmark level closer to the somewhat higher market estimate for 2015 than the lower estimate for 2017. Finally, FHFA is proposing benchmark levels for the low-income home purchase housing goal that are somewhat higher in the forecast range to encourage the Enterprises to continue to find ways to support lower income borrowers, without compromising safe and sound lending standards. FHFA will continue to monitor the Enterprises in its capacities as regulator and as conservator, and if FHFA determines in later years that the benchmark level for the low-income home purchase housing goal is no longer feasible for the Enterprises to achieve in light of market conditions, or for any other reason, FHFA will take appropriate steps to adjust the benchmark level.

2. Very Low-Income Home Purchase Goal

The very low-income home purchase goal is based on the percentage of all single-family, owner-occupied home purchase mortgages purchased by an Enterprise that are for very low-income families, defined as families with incomes less than or equal to 50 percent of the area median income.

The proposed rule would set the annual very low-income home purchase housing goal benchmark level for 2015 through 2017 at 7 percent, which would be unchanged from the current 2014 benchmark level. FHFA's market model forecasts a declining proportion of home purchase mortgages for very low-income families for these years. FHFA has not reduced the proposed benchmark level, however, in order to encourage the Enterprises to continue their efforts to promote safe and sustainable lending to very low-income families. This may include any steps the Enterprises take to bring greater certainty to origination and servicing standards for lenders, any additional outreach to small and rural lenders and to state and local Housing Finance Agencies (HFAs), and any other efforts by the Enterprises to reach underserved creditworthy borrowers.

A summary of the past performance of the Enterprises on the very low-income home purchase housing goal, including past benchmark levels and the size of the market in past years, appears in the **Appendix** in **Table 7**.

Market size. FHFA's forecast for the very low-income share of the overall market for home purchase mortgages is almost the same for each year from 2015 through 2017: 5.8 percent for 2015, 5.7 percent for 2016, and 5.6 percent for 2017. These forecasts for the very low-income share of the overall market are lower than the actual very low-income shares of the overall market in 2010 through 2012 and are slightly lower than the estimated very low-income shares for 2013 and 2014. The actual very low-income market shares for 2010 through 2012 are based on FHFA's analysis of the most recent HMDA data available: 8.1 percent in 2010, declining slightly to 8.0 percent in 2011 and 7.7 percent in 2012. FHFA estimates that the very low-income share of the overall market declined to 6.3 percent in 2013, and FHFA forecasts a further decline to 5.9 percent for 2014.

Past performance. The performance of the Enterprises on the very low-income home purchase housing goal was relatively stable between 2010 and 2012, before declining in 2013. Fannie Mae's performance was 7.2 percent in 2010, 7.6 percent in 2011 and 7.3 percent in 2012, while Freddie Mac's performance was 7.9 percent in 2010, 6.6 percent in 2011 and 7.1 percent in 2012. Both Enterprises performed at a lower level on the very low-income home purchase housing goal in 2013, with Fannie Mae at 6.0 percent and Freddie Mac at 5.5 percent.

Past benchmark levels. The benchmark level for the very low-income home purchase housing goal in 2010 and 2011 was 8 percent. This level was very close to the actual very low-income share of the overall market as measured by HMDA data for 2010 and 2011. The benchmark level for the very low-income home purchase housing goal was lowered to 7 percent for 2012, 2013 and 2014. This new benchmark level was slightly below the actual very low-income share of the overall market in 2012. FHFA estimates that the very low-income share of the overall market for 2013 and 2014 will be below the benchmark level of 7 percent.

Proposed benchmark levels. Although FHFA's market estimation model forecasts the very low-income share of the overall market to be below the current benchmark level, the proposed rule would maintain the existing benchmark level of 7 percent for 2015 through 2017. FHFA is proposing this benchmark level in light of the current two-part process for evaluating Enterprise performance on the single-family housing goals, using both a benchmark level and a retrospective market level. If FHFA adopts an alternative approach that relies solely on benchmark levels, as described below in Section IV.C, FHFA may adopt a benchmark level in the final rule that is lower than the proposed benchmark level of 7 percent.

The market estimation model forecasts a range of possible market levels and, while the proposed benchmark level is above the point estimates for each year from 2015 through 2017, the proposed benchmark level is within the confidence interval range for those years. FHFA is proposing benchmark levels for the very low-income home purchase housing goal that are somewhat higher in the forecast range to encourage the Enterprises to continue to find ways to support lower income borrowers, without compromising safe and sound lending standards. FHFA will continue to monitor the Enterprises in its capacities as regulator and as conservator, and if FHFA determines in later years that the benchmark level for the very low-income home purchase housing goal is no longer feasible for the Enterprises to achieve in light of market conditions, or for any other reason, FHFA will take appropriate steps to adjust the benchmark level.

3. Low-Income Areas Home Purchase Subgoal

The low-income areas home purchase subgoal is based on the percentage of all single-family, owner-occupied home purchase mortgages purchased by an Enterprise that are either: (1) for families in low-income areas, defined to include census tracts with median income less than or equal to 80 percent of area median income; or (2) for families with incomes less than or equal to area median income who reside in minority census tracts (defined as census tracts with a minority population of at least 30 percent and a tract median income of less than 100 percent of the area median income).

The proposed rule would set the annual low-income areas home purchase subgoal benchmark level for 2015 through 2017 at 14 percent. This proposed benchmark level would be an increase over the current benchmark level of 11 percent. However, the proposed benchmark level would be in line with FHFA's forecasts for the actual low-income areas shares of the overall market and in line with the recent performance of the Enterprises on the low-income areas home purchase housing subgoal.

A summary of the past performance of the Enterprises on the low-income areas home purchase subgoal, including past benchmark levels and the size of the market in past years, appears in the **Appendix** in **Table 8**.

Market size. FHFA's forecast for the low-income areas share of the overall market for home purchase mortgages is almost the same for each year from 2015 through 2017: 14.7 percent for 2015 and 2016, and 14.2 percent for 2017. These forecasts for the low-income areas share of the overall market are higher than the actual low-income areas shares of the overall market in 2010 through 2012, and are close to or higher than the estimated low-income areas shares for 2013 and 2014. The actual low-income areas market shares for 2010 through 2012 are based on FHFA’s analysis of the most recent HMDA data available: 12.1 percent in 2010, declining slightly to 11.4 percent in 2011 before increasing to 13.6 percent in 2012. FHFA estimates that the low-income areas share of the overall market increased to 13.4 percent in 2013, and FHFA forecasts a further increase to 14.3 percent for 2014.

Past performance. The performance of the Enterprises on the low-income areas home purchase subgoal has generally followed the changes in the low-income shares of the overall market between 2010 and 2013. Fannie Mae’s performance was 12.4 percent in 2010 and declined to 11.6 percent in 2011 before increasing to 13.1 percent in 2012 and 14.0 percent in 2013. Freddie Mac’s performance has followed the same basic pattern. Freddie Mac’s performance was 10.4 percent in 2010 and declined to 9.2 percent in 2011 before increasing to 11.4 percent in 2012 and 12.3 percent in 2013.

Past benchmark levels. The benchmark level for the low-income areas home purchase subgoal in 2010 and 2011 was 13 percent. This level was somewhat higher than the actual low-income areas share of the overall market as measured by HMDA data for 2010 and 2011. The benchmark level for the low-income areas home purchase subgoal was lowered to 11 percent for 2012, 2013 and 2014. This new benchmark level turned out to be lower than the actual low-income areas share of the overall market in 2012. FHFA estimates that the low-income areas share of the overall market for 2013 and 2014 will continue to be higher than the 2014 benchmark level of 11 percent.

Proposed benchmark levels. The proposed rule would set the annual low-income areas home purchase subgoal benchmark level for 2015 through 2017 at 14 percent. The proposed benchmark levels are higher than the current benchmark level of 11 percent.

However, the proposed benchmark levels are very close to the low-income areas shares of the overall market forecast by FHFA's market estimation model for 2015 through 2017, as well as to the recent performance levels of the Enterprises.

FHFA is proposing this benchmark level in light of the current two-part process for evaluating Enterprise performance on the single-family housing goals, using both a benchmark level and a retrospective market level. If FHFA adopts an alternative approach that relies solely on benchmark levels, as described below in Section IV.C, FHFA may adopt a benchmark level in the final rule that is lower than the proposed benchmark level of 14 percent. FHFA will continue to monitor the Enterprises in its capacities as regulator and as conservator, and if FHFA determines in later years that the benchmark level for the low-income areas home purchase housing goal is no longer feasible for the Enterprises to achieve in light of market conditions, or for any other reason, FHFA will take appropriate steps to adjust the benchmark level.

4. Low-Income Areas Home Purchase Goal

The low-income areas home purchase goal covers the same categories as the low-income areas home purchase subgoal, but it also includes moderate income families in designated disaster areas. As a result, the low-income areas home purchase goal is based on the percentage of all single-family, owner-occupied home purchase mortgages purchased by an Enterprise that are: (1) for families in low-income areas, defined to include census tracts with median income less than or equal to 80 percent of area median income; (2) for families with incomes less than or equal to median income who reside in minority census tracts (defined as census tracts with a minority population of at least 30 percent and a tract median income of less than 100 percent of the area median income);

or (3) for families with incomes less than or equal to median income who reside in designated disaster areas.

The low-income areas goal benchmark level is established by a two-step process. The first step is setting the benchmark level for the low-income areas subgoal, which would be established by this proposed rule. The second step is establishing an additional increment for mortgages to families with incomes less than or equal to the area median income who are located in Federally-declared disaster areas. The disaster areas increment is set annually by FHFA separately from this rulemaking. Each year, FHFA notifies the Enterprises by letter of the benchmark level for that year. Thus, under this process, this proposed rule would set the annual low-income areas home purchase goal benchmark level for 2015 through 2017 at the subgoal benchmark level of 14 percent plus a disaster areas increment that FHFA will set separately and that may vary from year to year.

5. Low-Income Refinancing Goal

The low-income refinancing goal is based on the percentage of all single-family, owner-occupied refinancing mortgages purchased by an Enterprise that are for low-income families, defined as families with incomes less than or equal to 80 percent of the area median income.

The proposed rule would set the annual low-income refinancing housing goal benchmark level for 2015 through 2017 at 27 percent. This proposed benchmark level would be a significant increase from the current benchmark level of 20 percent. However, because FHFA forecasts even larger increases in the low-income share of the overall refinancing mortgage market, the proposed benchmark levels are relatively low in the forecast range for the low-income refinancing housing goal.

A summary of the past performance of the Enterprises on the low-income refinancing housing goal, including past benchmark levels and the size of the market in past years, appears in the **Appendix** in **Table 9**.

Market size. FHFA's forecast for the low-income share of the overall market for refinancing mortgages in 2015 is 31.0 percent, increasing to 33.5 percent in 2016 and to 34.2 percent in 2017. These forecasts for the low-income share of the overall market for refinancing mortgages are notably higher than the actual low-income share in recent years. The actual low-income shares are based on FHFA's analysis of the most recent HMDA data available. The low-income share of the overall refinancing mortgage market in 2010 was 20.2 percent, increasing slightly to 21.5 percent in 2011 and to 22.3 percent in 2012. FHFA estimates that the low-income share of the overall refinancing market increased slightly to 22.4 percent in 2013, and FHFA forecasts a more significant increase for 2014, to 27.6 percent.

Past performance. The performance of the Enterprises on the low-income refinancing housing goal was somewhat higher than the actual market levels for 2010 through 2012, as well as the forecast market level for 2013. Since 2010, the low-income refinancing housing goal has treated modifications under the Home Affordable Modification Program (HAMP) as refinancing mortgages for purposes of the housing goals. The Enterprise performance numbers include HAMP modifications, which are not included in the data used to calculate the market levels. Including HAMP modifications in the Enterprise performance numbers tends to increase the measured performance of the

Enterprises on the low-income refinancing housing goal. This is because lower income borrowers make up a greater proportion of the borrowers receiving HAMP modifications than the low-income share of the overall refinancing mortgage market.

Fannie Mae's performance on the low-income refinancing housing goal was 20.9 percent in 2010, increasing to 23.1 percent in 2011, falling to 21.8 percent in 2012, and increasing again to 24.3 percent in 2013. Freddie Mac's performance followed a similar pattern, starting at 22.0 percent in 2010, increasing to 23.4 percent in 2011, falling to 22.4 percent in 2012, and increasing again to 24.1 percent in 2013.

Past benchmark levels. The benchmark level for the low-income refinancing housing goal was 21 percent in 2010 and 2011. This level was very close to the actual low-income share of the overall refinancing mortgage market as measured by HMDA data for 2010 and 2011. The benchmark level for the low-income refinancing housing goal was lowered to 20 percent for 2012, 2013 and 2014. This new benchmark level was below the actual low-income share of the overall refinancing mortgage market in 2012. FHFA estimates that the low-income share of the overall refinancing mortgage market for 2013 and 2014 will be significantly higher than the benchmark level of 20 percent.

Proposed benchmark levels. The proposed rule would set the annual low-income refinancing housing goal benchmark level for 2015 through 2017 at 27 percent. This is significantly higher than the current benchmark level of 20 percent. FHFA's market estimation model forecasts the low-income share of the overall refinancing mortgage market to be significantly higher than both the current benchmark level and the recent performance of the Enterprises. Although the proposed rule would increase the benchmark level for the low-income refinancing goal significantly, the proposed benchmark levels would be lower than the point estimates projected by the market estimation model for 2015 through 2017. However, the proposed benchmark level would still be within the range of possible market levels forecast by the market estimation model. In addition, while the forecast of the market level increases each year from 2015 through 2017, the point estimate for 2015 is subject to less uncertainty than the point estimate for 2017. This supports setting the proposed benchmark level closer to the somewhat lower market estimate for 2015 than the higher estimate for 2017.

Although this proposed benchmark level is higher than any level achieved by either Enterprise since 2010 and would represent an increase of 7 percentage points over the current goal, the proposed benchmark level should be achievable because higher income borrowers are historically more likely to refinance their mortgages when interest rates have decreased. As a result, when interest rates fall, overall refinance volumes tend to increase, but the low-income goal qualifying share tends to decrease. The opposite is true when interest rates increase: there are usually fewer refinancings overall, but a greater percentage of those refinancings are by low-income borrowers. FHFA’s market model forecasts that over the next three years the low-income goal-qualifying share of refinancing mortgages will increase significantly both due to future increases in interest rates and due to the fact that many borrowers would already have refinanced during the recent extended period of historically low interest rates.

FHFA is proposing this benchmark level in light of the current two-part process for evaluating Enterprise performance on the single-family housing goals, using both a benchmark level and a retrospective market level. If FHFA adopts an alternative approach that relies solely on benchmark levels, as described below in Section IV.C, FHFA may adopt a benchmark level in the final rule that is lower than the proposed benchmark level of 27 percent. In addition, FHFA will continue to monitor the Enterprises in its capacities as regulator and as conservator, and if FHFA determines in later years that the benchmark level for the low-income refinancing housing goal is no longer feasible for the Enterprises to achieve in light of market conditions, or for any other reason, FHFA will take appropriate steps to adjust the benchmark level.

C. Proposed Alternatives to the Market-Based Retrospective Approach

Since 2010, the single-family housing goals have measured Enterprise performance by comparing it to both: (1) a benchmark level that is set in advance, and (2) the actual market level, as measured retrospectively based on HMDA data. Under the current rule, an Enterprise has met a goal if it achieves either the benchmark level for that goal, or the actual, retrospective market size for that goal. FHFA is requesting comment on whether this current approach should be maintained or whether FHFA should adopt a different approach in the final rule.

FHFA is proposing three different alternatives and may adopt any of the three in the final rule. The first alternative would maintain the current approach, measuring performance on the single-family housing goals against both a benchmark level and a market level. The second alternative would eliminate the retrospective market level and measure performance on the single-family housing goals against a benchmark level only. The third alternative would eliminate the prospective benchmark levels and measure performance on the single-family housing goals against a retrospective market level only.

Each of these alternatives strikes a different balance between goals that are established in advance and goals that are determined retrospectively based on market performance. To the extent any of these alternatives sets goal levels in advance, it is easier for the Enterprises to establish plans for meeting the goal, while at the same time it is harder for FHFA to set the goal accurately for more than one year in advance. To the extent that an alternative sets goal levels retrospectively based on market performance, it is harder for the Enterprises to establish plans for meeting the goal, but the goal level is more likely to be feasible because it would be based on the actual performance of the overall market.

Under each of these alternatives, FHFA would continue to monitor the Enterprises in its capacities as regulator and as conservator. If FHFA determines that the housing goals established under any of these alternatives need to be adjusted in light of changes in the market, to ensure the safety and soundness of the Enterprises, or for any other reason, FHFA will take all appropriate steps, including adjusting the levels of the housing goals or initiating additional rulemaking to amend the housing goals regulation.

<u>Alternative 1: Benchmark Level and Market Level</u>. The first alternative being proposed by FHFA would continue evaluating Enterprise performance based on a comparison with both a benchmark level that is set prospectively by regulation and a retrospective market level based on HMDA data.

This alternative would maintain the existing regulatory language in § 1282.12. Paragraph (a) would continue to provide that "[a]n Enterprise shall be in compliance with a single-family housing goal if its performance under the housing goal meets or exceeds either: (1) The share of the market that qualifies for the goal; or (2) The benchmark level for the goal." Paragraph (b) would define the process for measuring the share of the market that qualifies for the goal. The remaining paragraphs in the section would describe each of the single-family housing goals, including the retrospective market share and the benchmark level, where applicable.

This two-part approach incorporates some of the advantages both of a benchmark level that is set prospectively and of a market level that is set retrospectively. By including a benchmark level, the two-part approach gives the Enterprises more certainty in planning how they will achieve the single-family housing goals each year. At the same time, the retrospective market level measure helps to address the inherent difficulty of accurately forecasting, years in advance, the housing goals shares of the overall market. The retrospective market level is much more adaptive than a fixed benchmark level by itself, although the HMDA data used for the retrospective measure does not become available until September of the following year. The retrospective market level incorporates many of the same considerations that FHFA uses in setting the prospective benchmark levels, but it is based on the actual performance of the market in the year being evaluated. This versatility helps ensure that the single-family goals are feasible for the Enterprises to achieve each year. Without the retrospective market approach, additional regulatory action would be required for the agency to adapt to unanticipated market changes.

One disadvantage of this two-part approach is that if the Enterprises anticipate that the retrospective market level will end up lower than the benchmark level for a particular year, the single-family housing goals may provide less of an incentive for the Enterprises to serve the targeted parts of the market. On the other hand, the Enterprise would still have some incentive to meet benchmark targets in the first instance, rather than waiting to find out the results of the market-based analysis.

Another potential disadvantage of the retrospective, market-based approach generally is that it may be less meaningful under market circumstances where the Enterprises purchase a large percentage of the total number of single-family, conventional conforming mortgages in a particular year. In those circumstances, the retrospective, market-based approach would effectively compare the performance of the Enterprises to their own activity.

FHFA welcomes comments on this alternative, including any other advantages or disadvantages of measuring performance against both a benchmark level and the market level.

Alternative 2: Benchmarks Only. The second alternative being proposed by FHFA would be to evaluate Enterprise performance on the single-family housing goals based solely on a comparison with a benchmark level that is set prospectively by regulation.[10]

This alternative would revise the existing regulatory language in § 1282.12(a) to provide that "[a]n Enterprise shall be in compliance with a single-family housing goal if its performance under the housing goal meets or exceeds the benchmark level for the goal." The current paragraph (b) would be deleted from the regulation. The remaining paragraphs in the section would be revised to delete from each the current subparagraph (1), which refers back to the retrospective market level. As revised, these paragraphs would simply set out the benchmark levels for each of the single-family housing goals.

An advantage of this approach is that it would provide the Enterprises with certainty in planning how to achieve the single-family housing goals each year. Another

---

[10] Prior to 2010, the Enterprise housing goals consisted solely of benchmark levels that were set prospectively.

advantage of this approach would be that FHFA could determine whether the Enterprises met the single-family goals relatively early in the year, allowing the Enterprises to adjust their activities if necessary.

A disadvantage of the benchmarks-only approach is the difficulty in accurately forecasting market dynamics and goal-qualifying share levels years in advance. As a result, much of the impact of using housing goals based only on prospective benchmark levels depends on whether those forecasts are accurate or if the actual market level for that year is higher or lower than the benchmark level. If the actual market level for a particular year turns out to be higher than the benchmark level that was set in advance, the Enterprises are likely to find the goal easy to achieve without a particular focus on serving the portions of the single-family market targeted by the housing goals. Conversely, if the actual market level for a particular year turns out to be lower than the benchmark level that was set in advance, the Enterprises may find the goal difficult or impossible to achieve.

If FHFA adopts this alternative, FHFA would consider whether adjustments to the proposed benchmark levels for the single-family housing goals are necessary. Without the existence of the retrospective market level to help mitigate the uncertainty in projecting the market shares for each goal, FHFA's considerations might lead the agency to select a benchmark that is in the lower part of the projected market range.

FHFA welcomes comments on this alternative, including any other advantages or disadvantages of measuring performance against a benchmark level only. FHFA also encourages commenters to address what benchmark levels would be appropriate for each of the single-family housing goals if FHFA adopts this alternative in the final rule.

Alternative 3: Market Level Only. The third alternative being proposed by FHFA would be to evaluate Enterprise performance on the single-family housing goals based solely on a comparison with a retrospective market level based on HMDA data.

This alternative would revise the existing regulatory language in § 1282.12(a) to provide that "[a]n Enterprise shall be in compliance with a single-family housing goal if its performance under the housing goal meets or exceeds the share of the market that qualifies for the goal." Paragraph (b) would define the process for measuring the share of the market that qualifies for the goal. The remaining paragraphs in the section would be revised to delete from each the current subparagraph (2), which sets out the benchmark level for each single-family housing goal.

Under this alternative, whether an Enterprise meets a particular housing goal would depend solely on whether the performance of the Enterprise met the actual market level for that year. This would eliminate the need for FHFA to forecast the goal-qualifying share of the overall market, and it would make it more likely that the single-family goals would be feasible for the Enterprises each year compared to Alternative 2. An additional advantage of this approach would be that it would require the Enterprises to continue efforts to support all aspects of the market in years when the actual market levels are higher than forecasts would have predicted.

A disadvantage of this approach would be that it may be more difficult for the Enterprises to establish plans for how to meet or exceed the actual market level. If FHFA adopts this alternative, it may be necessary for FHFA to require more frequent reporting from the Enterprises on their current activities and on their forecasts and plans for addressing the housing goals over the course of each year. As discussed under

Alternative 1, another disadvantage of the retrospective, market-based approach is that it may be less meaningful under market circumstances where the Enterprises purchase a large percentage of mortgages in a particular year. In addition, this alternative would not allow FHFA to determine whether an Enterprise has met the single-family goals until October of the following year.

FHFA welcomes comments on this alternative, including other advantages or disadvantages of measuring performance against a market level that can only be determined retrospectively, or against a market level based on data from a previous year.

V. Multifamily Housing Goals

A. Factors Considered in Setting the Proposed Multifamily Housing Goal Levels

Section 1333(a)(4) of the Safety and Soundness Act requires FHFA to consider the following six factors in setting the multifamily housing goals:

1. National multifamily mortgage credit needs and the ability of the Enterprise to provide additional liquidity and stability for the multifamily mortgage market;
2. The performance and effort of the Enterprise in making mortgage credit available for multifamily housing in previous years;
3. The size of the multifamily mortgage market for housing affordable to low-income and very low-income families, including the size of the multifamily markets for housing of a smaller or limited size;
4. The ability of the Enterprise to lead the market in making multifamily mortgage credit available, especially for multifamily housing affordable to low-income and very low-income families;
5. The availability of public subsidies; and

6. The need to maintain the sound financial condition of the Enterprise.[11]

In setting the proposed benchmark levels for the multifamily housing goals, FHFA has considered each of the six statutory factors. The statutory factors for the multifamily goals are very similar, but not identical, to the statutory factors considered in setting the benchmark levels for the single-family housing goals. At the same time, there are several important distinctions between the single-family housing goals and the multifamily housing goals. While there are separate single-family housing goals for home purchase and refinancing mortgages, the multifamily goals include all Enterprise multifamily mortgage purchases, regardless of the purpose of the loan. In addition, unlike the single-family housing goals, by statute the multifamily goals are measured based on the total volume of affordable multifamily mortgage purchases, not based on a percentage of multifamily mortgage purchases. The use of total volumes, which FHFA measures by the number of eligible units, rather than percentages of each Enterprises' overall multifamily purchases requires particular attention both to the overall size of the multifamily mortgage market and to the expected volume of the Enterprises' multifamily purchases in a given year.

Another difference between the single-family and multifamily goals is that performance on the multifamily housing goals is measured based solely on a benchmark level, without any retrospective market measure. The absence of a retrospective market measure for the multifamily housing goals results, in part, from the lack of comprehensive data about the multifamily mortgage market. Unlike the single-family market, where HMDA provides a reasonably comprehensive dataset about single-family

[11] 12 U.S.C. 4563(a)(4).

mortgage originations each year, the multifamily market (and the affordable multifamily market segment) has no such comparable data set. As a result, it can be difficult to correlate different data sets that may rely on different reporting formats—for example, some data is available by dollar volume while other data is available by unit production. The lack of comprehensive data about the multifamily mortgage market is even more acute with respect to the segments of the market that are targeted to low-income families, defined as families with incomes less than or equal to 80 percent of the area median income, and very low-income families, defined as families with incomes less than or equal to 50 percent of the area median income. Much of the analysis that follows discusses trends in the overall multifamily mortgage market. FHFA recognizes that these general trends may not apply to the same extent to all segments of the market.

FHFA has considered each of the required statutory factors and a discussion of the various factors, a number of which are related or overlap, follows.

1. The Multifamily Mortgage Market: Market Size, Competition and the Affordable Multifamily Market

FHFA's consideration of the multifamily mortgage market addresses the size of and competition within the multifamily mortgage market, as well as the subset of the multifamily market affordable to low-income and very low-income families (Factors 1, 3 and 5). Recent trends in the multifamily market indicate that overall multifamily mortgage market volumes are expected to increase between 2014 and 2017, both in terms of total refinancing activity and total financing for new multifamily units being completed. However, FHFA expects the Enterprises will make up a smaller share of the overall multifamily mortgage market due to increased participation from the private sector. FHFA has also considered the importance of Enterprise support of the multifamily market in light of recent decreases in rental affordability.

Multifamily mortgage market size. The overall size of the multifamily market, in terms of units, was over 23 million rental units in 2011, according to the data from the U.S. Census Bureau in the 2011 American Community Survey (ACS).[12] The size of the multifamily market in terms of mortgage origination volume varies significantly from year to year based on a variety of market conditions.

During the financial crisis and the resulting decline in the housing market, the size of the multifamily mortgage market decreased significantly. Overall, multifamily mortgage originations fell from $147.7 billion in 2007 to $87.9 billion in 2008 and $52.5 billion in 2009, as shown in **Table 1**. The declines were even more pronounced in the private sector segment of the multifamily market, which decreased from almost $112 billion in 2007 to $46.4 billion in 2008 and $18.4 billion in 2009. The Enterprises' multifamily purchases provided a countercyclical source of financing during this same period. While the size of the overall multifamily mortgage market was declining, the volume of Enterprise purchases was relatively steady. The combined volume of Enterprise purchases in 2007, excluding purchases of commercial mortgage-backed securities (CMBS), was $34.6 billion. The Enterprises' combined multifamily volume rose to $40 billion in 2008 before declining to $31 billion in 2009.

[12] U.S. Census Bureau, 2011 American Community Survey (ACS). The percentage of multifamily units relative to all housing units was highest in the Middle Atlantic Division (23.1 percent), the Pacific Division (21.7 percent), and the South Atlantic Division (18.4 percent).

Table 1
Government and Private Sector Market Share of Multifamily Originations
2005-2013

Year	Total Volume $ Bil.	% Fannie Mae	% Freddie Mac	% Enterprise Total	% FHA	% Private Sector
2005	$133.1	11.7%	6.7%	18.4%	2.2%	79.3%
2006	$138.0	11.7%	7.1%	18.8%	1.0%	80.2%
2007	$147.7	13.1%	10.4%	23.4%	0.8%	75.8%
2008	$87.9	25.4%	20.1%	45.5%	1.7%	52.8%
2009	$52.5	30.2%	28.9%	59.2%	5.6%	35.2%
2010	$68.8	24.5%	20.3%	44.8%	15.3%	40.0%
2011	$110.1	20.9%	18.9%	39.8%	10.6%	49.6%
2012	$146.1	21.7%	18.3%	39.9%	10.2%	49.8%
2013	$170.0	16.6%	14.8%	31.4%	10.4%	58.3%

***FHA data is for fiscal years 2005 to 2013**
Sources: "MBA Commercial Real Estate Finance Survey"
Sources for 2013 data: Fannie Mae, Freddie Mac, and FHA. Total 2013 volume derived from "MBA Commercial Real Estate Finance Survey" data.
Note: All multifamily loans in CMBS issuances are included under "Private Sector", regardless of the investor.

Since 2009, the overall size of the market has rebounded and has shown increasing private sector participation. The market has increased from a low of $52.5 billion in 2009, to $69 billion in 2010, $110 billion in 2011, and $146 billion in 2012. Total multifamily mortgage originations from all capital sources continued to increase in 2013, to $170 billion.[13]

Competition in the multifamily mortgage market. Increased demand for multifamily housing and strong investment returns have attracted banks, insurance companies, CMBS issuers, and other private lenders back to the multifamily market.[14] Much of the increase in private sector activity has come from commercial banks and life insurance companies, the entities, other than the Enterprises, that purchase the most multifamily mortgages. Additionally, multifamily loans included in CMBS issuances

[13] MBA, Annual Origination Volume Summary (February 3, 2014).
[14] National Mortgage News, "JPMorgan's Appetite for Multifamily Loans Keeps Growing" (February 19, 2014).

increased from $785 million in the first half of 2013 to $2.6 billion in the first half of 2014.[15] FHA also remained a significant backer of multifamily mortgages, insuring over $18 billion in multifamily loans in 2013.[16] As reflected in **Table 1**, increased competition in the multifamily mortgage market resulted in the Enterprises' multifamily market share declining from a peak of almost 60 percent in 2009 to just under 40 percent in 2011 and 2012 and to just over 30 percent in 2013.[17]

The decrease in market share for the Enterprises relative to the overall market is expected to continue in 2014 and beyond. According to the MBA multifamily originations index, total multifamily originations for the first quarter of 2014 were about the same as first quarter 2013 data. MBA data shows a sharp rise in multifamily lending by banks and life insurance companies from first quarter 2013 compared to first quarter 2014.[18] The increase in activity by banks and life insurance companies likely affected the Enterprises' combined multifamily loan purchases, which were down by almost 50 percent in the first half of 2014 compared to their purchases in the first half of 2013. While this sharp decline is unlikely to continue through the rest of 2014, the overall trend of increased competition from the private sector is expected to continue in 2014 and beyond.

Affordable Multifamily Market Segment. FHFA's consideration of the multifamily mortgage market is limited by the lack of comprehensive data about the size of the market for low-income and very low-income families. However, FHFA recognizes

[15] Bloomberg and Commercial Mortgage Alert.
[16] FHA, Annual Management Report, 2013.
[17] Computed from data in the "MBA Commercial Real Estate Finance Survey"; Mortgage Bankers Association CREF Conference presentation: "The Economy and Multifamily Finance Markets" (February 4, 2014).
[18] MBA, "Commercial Real Estate / Multifamily Finance Quarterly Data Book" (June, 2014).

that the portion of the overall multifamily mortgage market that is affordable to low-income and very low-income families may vary from year-to-year, that the competition within the multifamily market overall may differ from the competition within the affordable multifamily market segment, and that the volume for the affordable multifamily market segment will also be related to the availability of affordable housing subsidies.

Affordability for families living in rental units has decreased in recent years for many households. Spending more than 30 percent of household income towards rent is often used as a measure of whether a household is rent burdened, and the Safety and Soundness Act also incorporates this metric when determining whether a unit meets the low-income or very low-income categories, with appropriate adjustments for unit size.[19] According to the Joint Center on Housing Studies, "[t]he share of cost-burdened renters increased in all but one year from 2001 to 2011, to just above 50 percent. More than a quarter of renter households (28 percent) had severe burdens (paid more than half their incomes for housing). In 2012, the share of cost-burdened renters improved slightly but their numbers held steady as more households entered the rental market."[20]

The affordable segment of the multifamily market is critical in meeting the housing needs of low-income and very low-income families that would otherwise be rent-burdened. Financing for affordable multifamily buildings—particularly those that are affordable to very low-income families, defined as families with incomes at or below 50 percent of AMI—often uses an array of state and federal housing subsidies, such as low-income housing tax credits (LIHTCs), tax-exempt bonds, Section 8 rental assistance or

[19] 12 U.S.C. 4563(c).
[20] Joint Center for Housing Studies, Harvard University, "The State of the Nation's Housing," p.5 (2014).

soft subordinate financing. Investor interest in tax credit equity projects of all types and in all markets is strong and is expected to remain so, especially in markets in which bank investors are seeking to meet Community Reinvestment Act (CRA) goals. Consequently, there should continue to be opportunities in the multifamily market to provide permanent financing for properties with low-income housing tax credits during the 2015-2017 period. Additionally, there should also be opportunities for market participants, including the Enterprises, to purchase mortgages that finance the preservation of existing affordable housing units (especially for restructurings of older properties that reach the end of their initial 15-year LIHTC compliance periods and for refinancing properties with expiring Section 8 rental assistance contracts).

2. Factors Impacting the Multifamily Mortgage Market

FHFA has considered a variety of economic indicators and measures related to the size and affordability of the multifamily mortgage market, which reflect fundamentals in the overall multifamily market and an ongoing need for affordable multifamily rental units. This section examines the following: interest rates, property values, multifamily rents, vacancy rates, multifamily building permits, multifamily housing starts, and multifamily housing completions.

Interest rates. The volume of multifamily mortgage originations is influenced heavily by interest rates. Although interest rates rose in 2013, they remained low compared to historical levels. If multifamily mortgage rates increase relative to the lower rates prior to 2013, multifamily mortgage origination volumes would be expected to decrease, including both refinancings and purchases.

Lower mortgage interest rates in recent years have resulted in refinancings making up a significant percentage of overall multifamily volume. This is reflected in the share of multifamily units financed by mortgages purchased by the Enterprises. For Fannie Mae, the share of multifamily units financed that were refinancings (as opposed to purchases, new construction, or preservation) increased from 64 percent in 2009, peaked at 75 percent in 2010, and declined to 66 percent in 2011, 66 percent in 2012, and 60 percent in 2013. For Freddie Mac the share of multifamily units financed that were refinancings declined from 77 percent in 2009, to 61 percent in 2010, 59 percent in 2011, 58 percent in 2012, and 50 percent in 2013.[21] If mortgage interest rates increase, the volume of refinancing mortgages can be expected to decrease.

In addition to the impact on refinancing volumes, increases in mortgage interest rates would make it more costly to finance the purchase of multifamily properties. The increased cost of multifamily financing would tend to decrease the volume of multifamily mortgage originations that fund purchases of multifamily properties.

Property values. As of the end of January 2014, multifamily property values were up over 13 percent from January 2013 and are now at or above the peak reached in 2007.[22] Rising multifamily property values usually spur increases in refinancings, property sales, and new construction activity. The impact of higher multifamily property values may be offset to some extent by rising interest rates. FHFA anticipates that multifamily property values will continue to increase in 2014, with more modest increases continuing during 2015-2017.

[21] Enterprise data.
[22] Moody's/Real Capital Analytics, "Composite CPPI Indices" (January, 2014), https://www.rcanalytics.com/Public/rca_cppi.aspx.

Multifamily vacancy rates and rents. During the housing crisis, vacancy rates for multifamily properties increased significantly and median asking rents declined. Since that time, vacancy rates have returned to lower levels, while rents have increased. Rental vacancy rates for multifamily units peaked at over 13 percent in the third quarter of 2009 but have declined each year since. Vacancy rates fell to around 9 percent in 2012 and have continued to average around 9 percent through 2013.[23] Median asking rents nationwide declined slightly between 2009 and 2011, from $708 in 2009 to $694 in 2011. Median asking rents have increased since 2011, reaching $734 in 2013 and $756 in the second quarter of 2014.[24] Both the average vacancy rates and median asking rents indicate that the market for multifamily housing will remain relatively strong, though trends in both measures are likely to moderate.

Multifamily building permits, starts and completions. Multifamily building permits and starts have recovered in recent years, after falling significantly after the housing market crisis. Multifamily building permits averaged 357,000 units annually between 2005 and 2008. The annual volume of multifamily building permits fell dramatically in 2009 and 2010, to approximately 130,000 units per year. The volume of permits has increased in the years since 2010, exceeding 340,000 units in 2013 and on pace to do the same in 2014.[25] Multifamily housing starts have followed the same

---

[23] U.S. Census Bureau, "Rental Vacancy Rates by Units in Structure." The vacancy rates reported by the U.S. Census Bureau are different from some other sources, but trends are similar. For example, data from CB Richard Ellis shows rental vacancy rates for multifamily units averaging over 7 percent in 2009 before falling to just under 5 percent in 2012 and 2013.

[24] U.S. Census Bureau, "Median Asking Rent for the U.S. and Regions." The asking rents reported by the U.S. Census Bureau are different from some other sources, but trends are similar. For example, data from CB Richard Ellis shows average rent rates at $1,211 in 2009 and $1,191 in 2010, then increasing steadily to $1,339 in 2013.

[25] U.S. Census Bureau, "New Privately Owned Housing Units Authorized by Building Permits in Permit-Issuing Places (In structures with 5 units or more)."

pattern, averaging approximately 287,000 units annually between 2005 and 2008. Multifamily housing starts dropped to just under 100,000 units each year in 2009 and 2010, and have since increased, exceeding 293,000 units in 2013.[26]

Multifamily housing completions have followed a similar pattern, though as expected, the changes in volume have occurred somewhat later than the volume changes in permits and starts. Multifamily housing completions exceed 250,000 units each year from 2005 through 2009. The decline that was seen in multifamily building permits and housing starts in 2009 and 2010 occurred for multifamily housing completions in 2010 and 2011, when the number of multifamily units completed was below 150,000 units each year. Multifamily housing completions have also been slower to recover, reaching 186,000 units in 2013.[27] However, given the recent increases in volume for multifamily building permits and housing starts, multifamily housing completions are expected to increase in coming years.

3. Enterprise Multifamily Performance

The Enterprises have served a consistent and critical role in the multifamily market in the years since the financial crisis. In the final rule establishing the multifamily goals for 2012 through 2014, FHFA increased these goal levels compared to previous years, reflecting the Enterprises' increased market share since 2008. However, in anticipation of increased private market activity during 2012 through 2014, FHFA also decreased these goals each of those years with 2012 being the highest and 2014 being the lowest. As required by the Safety and Soundness Act, FHFA has considered the

[26] U.S. Census Bureau, "New Privately Owned Housing Started (In structures with 5 units or more)."
[27] U.S. Census Bureau, "New Privately Owned Housing Units Completed (In structures with 5 units or more)."

performance of the Enterprises in previous years (Factor 2) in establishing the multifamily housing goal benchmark levels for 2015 through 2017.

In previous years, FHFA established higher multifamily housing goal levels for Fannie Mae than for Freddie Mac in order to reflect the larger size and more established history of Fannie Mae's multifamily purchase business. Fannie Mae consistently financed more low-income and very low-income units than Freddie Mac every year between 2009 and 2013. The difference between the volume of low-income units financed by mortgages purchased by Fannie Mae relative to Freddie Mac has been relatively stable, with Fannie Mae's volume being 67,800 units higher in 2009, 53,500 units higher in 2010, 72,200 units higher in 2011, 77,400 units higher in 2012, and 71,500 units higher in 2013. The difference between the volume of very low-income units financed by mortgages purchased by Fannie Mae relative to Freddie Mac has varied more, with Fannie Mae's volume being 40,500 units higher in 2009, 24,300 units higher in 2010, 48,800 units higher in 2011, 48,800 units higher in 2012, and 21,300 units higher in 2013.[28]

<u>Multifamily low-income housing goal</u>. The multifamily low-income housing goal includes units affordable to low-income families, defined as families with incomes no greater than 80 percent of area median income. In 2013, both Enterprises reported that they exceeded their low-income multifamily goals. Fannie Mae purchased mortgages financing 326,597 such units, compared to the 2013 goal level of 265,000 units. Freddie Mac purchased mortgages financing 255,057 units, compared to the 2013 goal level of 215,000 units.

[28] Enterprise data.

Starting in 2010, Fannie Mae and Freddie Mac have purchased a relatively stable percentage of low-income multifamily units relative to their total multifamily purchases, as is shown in **Table 2**. The share of low-income units purchased by Fannie Mae compared to its total purchases rose from 68 percent in 2009 to a range of 75 percent to 77 percent between 2010 and 2013. Similarly, Freddie Mac's low-income unit-eligible purchases rose from 65 percent in 2009 to a range of 75 percent to 79 percent between 2010 and 2013.[29]

Table 2
Enterprise Past Performance on the Low-Income Multifamily Goal, 2006-13
(Goals and performance measured in low-income multifamily units financed)

	Fannie Mae				Freddie Mac			
Year	Goal	Performance	Total Multifamily Units Financed	Low-Income %	Goal	Performance	Total Multifamily Units Financed	Low-Income %
2013	265,000	326,597	430,751	76%	215,000	255,057	341,921	75%
2012	285,000	375,924	501,256	75%	225,000	298,529	377,522	79%
2011	177,750	301,224	390,526	77%	161,250	229,001	290,116	79%
2010	177,750	214,997	286,504	75%	161,250	161,500	216,042	75%
2009	NA	235,199	344,989	68%	NA	167,026	256,346	65%
2008	NA	450,850	653,060	69%	NA	268,036	375,760	71%
2007	NA	392,666	668,963	59%	NA	298,746	388,072	77%
2006	NA	313,620	427,130	73%	NA	174,377	224,608	78%

Source: Performance as reported by the Enterprises for 2013; official performance as determined by FHFA for 2010-12; performance if the goal had been in effect for 2006-09 as calculated by FHFA. "Low-income" refers to units affordable to renters with incomes no greater than 80 percent of Area Median Income (AMI), based on a rental proxy.

Note: Figures do not include any units financed by the purchase of commercial mortgage-backed securities (CMBS).

Multifamily very low-income subgoal. The multifamily very low-income housing subgoal includes units affordable to very low-income families, defined as families with incomes no greater than 50 percent of area median income. Enterprise purchases of mortgages that finance properties with rental units affordable to very low-income

[29] Enterprise data.

families over the 2010-2013 period is reflected in **Table 3**. From 2010 to 2013, Fannie Mae purchased mortgages financing an average of 81,000 such units each year, peaking at 108,878 units in 2012, and Freddie Mac purchased mortgages financing an average of 46,000 such units each year, peaking at 60,084 units in 2012.

In 2013, both Enterprises reported that they exceeded their very low-income multifamily goals. Fannie Mae purchased mortgages financing 78,071 such units, compared to the 2013 goal of 70,000 units. Freddie Mac purchased mortgages financing 56,979 units, compared to the 2013 goal of 50,000 units.

In recent years, Fannie Mae has purchased a higher percentage of very low-income units, although this difference was very small in 2013, as shown in **Table 3**. Fannie Mae's very low-income purchases were 18 percent of its overall multifamily purchases in 2009, rising to 22 percent in 2011 and 2012 and then falling to 18 percent in 2013. Freddie Mac's very low-income purchases were unusually low in 2009, at 8 percent of its overall multifamily purchases, but returned to a more normal level of 14 percent in 2010, and has fluctuated since then, increasing to 17 percent in 2013.[30]

[30] Enterprise data.

Table 3
Enterprise Past Performance on the Very Low-Income Multifamily Subgoal, 2006-13
(Goals and performance measured in very low-income multifamily units financed)

	Fannie Mae				Freddie Mae			
Year	Goal	Performance	Total Multifamily Units Financed	Very Low-Income %	Goal	Performance	Total Multifamily Units Financed	Very Low-Income %
2013	70,000	78,071	430,751	18%	50,000	56,752	341,921	17%
2012	80,000	108,878	501,256	22%	59,000	60,084	377,522	16%
2011	42,750	84,244	390,526	22%	21,000	35,471	290,116	12%
2010	42,750	53,908	286,504	19%	21,000	29,656	216,042	14%
2009	NA	60,765	344,989	18%	NA	20,302	256,346	8%
2008	NA	96,242	653,060	15%	NA	45,154	375,760	12%
2007	NA	88,901	668,963	13%	NA	59,821	388,072	15%
2006	NA	88,521	427,130	21%	NA	34,638	224,608	15%

Source: Performance as reported by the Enterprises for 2013; official performance as determined by FHFA for 2010-12; performance if the goal had been in effect for 2006-09, as calculated by FHFA. "Very low-income" refers to units affordable to renters with incomes no greater than 50 percent of Area Median Income (AMI), based on a rental proxy.

Note: Figures do not include any units financed by the purchase of commercial mortgage-backed securities (CMBS).

4. Ability of the Enterprises to Lead the Market in Making Multifamily Mortgage Credit Available and Need to Maintain Sound Financial Condition of the Enterprises

In setting the proposed multifamily housing goals, FHFA has considered the ability of the Enterprises to lead the market in making multifamily mortgage credit available (Factor 4). As discussed above, the Enterprises' share of the overall multifamily market increased in the years immediately following the financial crisis and has reduced in more recent years in response to growing private sector participation. Despite the Enterprises' reduced market share in the overall multifamily market, they should continue to demonstrate leadership in multifamily affordable housing lending, which includes supporting housing for tenants at different income levels in various geographic markets and in various market segments.

In setting the proposed multifamily housing goals, FHFA has also considered the importance of maintaining the Enterprises in sound and solvent financial condition (Factor 6). During the conservatorships, the delinquency and default performance of the Enterprise portfolios of loans on multifamily affordable housing properties has not been significantly different from the performance of loans on market rate properties, which experienced extremely low delinquency and foreclosure rates. The Enterprises should, therefore, be able to sustain or increase their volume of purchases of loans on affordable multifamily housing properties without impacting the Enterprises' safety and soundness or negatively affecting the performance of their total loan portfolio.

FHFA continues to monitor the activities of the Enterprises, both in FHFA's capacity as safety and soundness regulator and as conservator. If necessary, FHFA will make appropriate changes in the multifamily housing goals to ensure the Enterprises' continued safety and soundness.

B. Proposed Multifamily Housing Goal Benchmark Levels

Based on FHFA's consideration of each of the statutory factors as described above, the proposed rule would establish new benchmark levels for the multifamily housing goals that are at the same level as the current goals for Fannie Mae and are gradually increasing for Freddie Mac. While the proposed multifamily benchmark levels are lower than the Enterprises' actual low-income and very low-income purchases in 2012 and 2013, FHFA expects that Fannie Mae and Freddie Mac will play a smaller role in the overall multifamily market as private sector activity increases. The Enterprise share of the overall market between 2005 and 2007 was around 20 percent. As overall multifamily origination volumes fell in 2008 through 2010, the Enterprise share increased significantly, reaching almost 60 percent in 2009. The Enterprise share of the market has decreased since 2009 as overall multifamily origination volumes have increased. The Enterprise share of the market was just over 30 percent in 2013, and preliminary data for both Enterprises show a sharp decrease in multifamily purchases in the first half of 2014, compared to the first half of 2013. While these trends are likely to moderate, the Enterprise share of the overall multifamily mortgage market is expected to remain relatively low in 2015 through 2017.

Under these market circumstances, the proposed multifamily benchmark levels would require the Enterprises to continue to support affordable multifamily housing despite their decreasing role overall. Before finalizing the benchmark levels for the low-income and very low-income multifamily goals in the final rule, FHFA will review any additional data that becomes available about the multifamily performance of the Enterprises in 2014, along with any comments on the proposed multifamily housing goals.

Additionally, the proposed rule would continue to set the multifamily housing goal levels for Freddie Mac at lower levels than the multifamily housing goals for Fannie Mae. These lower multifamily goal levels reflect the smaller overall unit volume of Freddie Mac's multifamily business when compared to Fannie Mae's. The proposed rule would increase the multifamily goal levels for Freddie Mac by a small amount each year from 2015 through 2017, but Freddie Mac's multifamily goal levels would continue to be lower than Fannie Mae's. FHFA requests comment on whether the low-income and very low-income multifamily goals for Fannie Mae and Freddie Mac should be set at different levels based on their expected volumes, or whether Fannie Mae and Freddie Mac should be expected to meet the same multifamily goal levels, and if so, whether the same goal levels should apply starting in 2015, 2016 or 2017. Commenters are encouraged to address specifically whether it would be feasible for both Enterprises to meet the same multifamily goals starting in 2015, as well as what impact requiring the same goals starting in 2015 would have on the market or on the Enterprises.

The proposed rule would also change several definitions to ensure that any unit claimed as goals eligible is, in fact, a unit with affordable rents. These changes are expected, however, to have only a limited impact on the ability of the Enterprises to meet the 2015 through 2017 multifamily housing goals.

Low-income families multifamily housing goal. The low-income families multifamily housing goal is based on the total number of rental units in multifamily properties financed by mortgages purchased by the Enterprises that are affordable to low-income families, defined as families with incomes less than or equal to 80 percent of the area median income. The proposed rule would set the annual low-income multifamily housing goal for Fannie Mae at 250,000 units in each year from 2015 through 2017. This would be the same as the low-income multifamily housing goal for Fannie Mae for 2014. The proposed rule would gradually increase the annual low-income multifamily housing goal for Freddie Mac in each year from 2015 through 2017, from 200,000 units for 2014 to 210,000 units in 2015, 220,000 units in 2016, and 230,000 units in 2017.

Very low-income families multifamily subgoal. The very low-income families multifamily housing subgoal is based on the total number of rental units in multifamily properties financed by mortgages purchased by the Enterprises that are affordable to very low-income families, defined as families with incomes less than or equal to 50 percent of the area median income. The proposed rule would set the annual very low-income multifamily subgoal for Fannie Mae at 60,000 units each year from 2015 through 2017. This would be the same as the very low-income multifamily subgoal for Fannie Mae for 2014. The proposed rule would gradually increase the very low-income multifamily subgoal for Freddie Mac in each year from 2015 through 2017. The very low-income families multifamily housing subgoal for Freddie Mac is currently set at 40,000 units for 2014. The proposed rule would increase this subgoal to 43,000 units in 2015, 46,000 units in 2016, and 50,000 units in 2017.

VI. Low-Income Housing Subgoal for Small Multifamily Properties

This proposed rule would establish a new low-income housing subgoal for small multifamily properties beginning in 2015. The Safety and Soundness Act requires the Enterprises to report on their volume of low-income small multifamily purchases and gives FHFA discretion to add a multifamily subgoal for this category.[31] FHFA has not previously established a subgoal for affordable small multifamily properties, but proposes to do so in this rule.

The Safety and Soundness Act also gives FHFA discretion to define "small multifamily properties" either in terms of the number of units in the property or in terms of the size of the loan.[32] The proposed rule would define "small multifamily properties" as those with 5 to 50 units. FHFA is not proposing to define small multifamily properties in terms of loan amount because some larger multifamily properties with more than 50 units may obtain low-leverage financing, meaning the Enterprise loan is small but the property securing the loan is not. Including smaller loans on larger properties would tend

[31] See 12 U.S.C. 4563(a)(3).
[32] See 12 U.S.C. 4563(a)(3).

to overstate the level of support that the Enterprises provide for small multifamily properties.

The proposed rule would initially set the new subgoal benchmark levels for the low-income housing subgoal for small multifamily properties at low levels relative to the overall size of the small multifamily mortgage market. The gradually increasing levels of the proposed low-income housing subgoal for small multifamily properties will allow FHFA to assess potential impacts of increased Enterprise participation in this segment of the market. FHFA welcomes comments on those potential impacts and will consider any comments received.

A. Factors Considered in Setting the Proposed Levels for the Low-Income Housing Subgoal for Small Multifamily Properties

The Safety and Soundness Act requires FHFA to consider the same six factors in setting the low-income housing subgoal for small multifamily properties that were considered in setting the low-income and very low-income multifamily housing goals: national multifamily mortgage credit needs; past performance of the Enterprises; multifamily mortgage market size; ability to lead the market; availability of public subsidies; and the need to maintain the sound financial condition of the Enterprises.[33] FHFA has considered each of these six statutory factors in setting the proposed benchmark levels for the low-income housing subgoal for small multifamily properties.

Because small multifamily loans are one component of the overall multifamily mortgage market, many of the same trends that were discussed previously in the context of the low-income and very low-income multifamily housing goals also apply to the

[33] 12 U.S.C. 4563(a)(4).

small multifamily market. In general, FHFA expects that there will be an increasing volume of multifamily mortgage originations over the next several years, but that the Enterprises will purchase a decreasing share of this volume. FHFA recognizes the market for mortgages on small multifamily properties may also differ in important ways from the overall multifamily mortgage market. While information about the small multifamily mortgage market is limited, FHFA has considered the extent to which the broader trends applicable to the multifamily mortgage market are expected to be reflected for small multifamily mortgages to the extent information is available and will continue to do so.

<u>1. The Small Multifamily Market: Size, National Mortgage Credit Needs and Availability of Public Subsidies</u>

Small multifamily properties are a significant source of affordable rental housing. Small multifamily properties represent one-third of all multifamily rental units[34] and rents in small multifamily properties are often lower than rents in larger multifamily properties. The Enterprises have played a relatively limited role in supporting financing for small multifamily properties. The proposed low-income housing subgoal for small multifamily properties would provide an additional incentive for the Enterprises to support this important source of affordable rental housing. FHFA's consideration of the mortgage market for small multifamily properties addresses the size of the small multifamily mortgage market, national mortgage credit needs, and the availability of public subsidies (Factors 1, 3 and 5).

[34] U.S. Census Bureau, 2011 American Community Survey, "General Housing Data," Table C-01-AH.

Small multifamily market size. There is limited data available on the overall size of the market for mortgages on small multifamily properties. Data on the multifamily mortgage market is generally reported based on loan balances rather than property size, which necessitates using loan balances to estimate the size of the market for multifamily properties that have between 5 and 50 units. Although using loan balances between $1 million and $3 million dollars will include some smaller balance loans on larger properties and will exclude some larger loans on smaller properties, it can provide an estimate of the size of the mortgage market for multifamily properties that have between 5 and 50 units.

According to data from the Mortgage Bankers Association (MBA), the volume of multifamily loans with balances from $1 million to $3 million originated in 2006 and 2007 was just over $34 billion each year. These volumes declined significantly in 2008 through 2010, falling as low as $8 billion in 2009. The volume of small multifamily loans has increased steadily since 2010, reaching $34 billion again in 2012. This represents over 25 percent of all multifamily mortgage loans originated in that year.

The trends in origination volumes for small multifamily loans have followed a similar pattern to those for the overall multifamily mortgage market. As discussed above, the size of the overall multifamily mortgage market in 2005 through 2007 averaged approximately $140 billion per year. The volumes decreased significantly in 2008 through 2010, reaching a low point of $52.5 billion in 2009. Since 2010, volumes have recovered, reaching $146 billion in 2012 and continuing to increase in 2013. FHFA expects the higher volumes to continue in 2014 through 2017 for both the overall multifamily mortgage market and the small multifamily segment of that market.

National multifamily mortgage credit needs. Small multifamily properties have characteristics that are different from larger properties, and as a result small multifamily properties have different financing needs. Small multifamily properties are more likely to be owned by an individual or small investor and less likely to be managed by a third party property management firm.[35] As a result, small multifamily properties are more likely to have informal documentation of the property's financial and other operating records.[36] This can make it more difficult for small multifamily property owners to obtain financing from some sources. Small multifamily properties are also often older than larger properties and tend to be more affordable than units in large properties.[37] As a result, small multifamily properties are likely to generate less revenue per unit than larger properties.[38] While these factors make small multifamily properties an important source of affordable rental housing, they can also make financing more difficult to obtain for small multifamily property owners.

Availability of public subsidies. According to RHFS data, the availability of public subsidies for small multifamily properties is primarily through Section 8 rental assistance vouchers, although the data also shows that small multifamily properties are less likely than larger multifamily properties to contain subsidized rental units.[39] As discussed above, this is at least in part due to the fact that market rents for small

---

[35] "Rental Housing Finance Survey," Tables 2b, 2c, 2d and 3 (March 27, 2013), http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2013/HUDNo.13-035.
[36] See Abt Associates, "An Assessment of the Availability and Cost of Financing for Small Multifamily Properties" (August 2001), http://abtassociates.com/reports/01-024.pdf.
[37] "Rental Housing Finance Survey," Tables 2b, 2c, and 2d (March 27, 2013), http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2013/HUDNo.13-035.
[38] "Rental Housing Finance Survey," Tables 2b, 2c, and 2d (March 27, 2013), http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2013/HUDNo.13-035.
[39] "Rental Housing Finance Survey," Table 3 (March 27, 2013), http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2013/HUDNo.13-035.

multifamily properties are more likely to be affordable to low- and moderate-income families without using rent subsidies.

2. Enterprise Small Multifamily Performance

The Enterprises have played a significantly smaller role in the market for mortgages on small multifamily properties than their role in the overall multifamily mortgage market, and small multifamily loans were a very small percentage of each Enterprise's multifamily loan purchases. Small multifamily properties accounted for less than three percent of all units in multifamily properties financed by mortgages purchased by Fannie Mae in 2013 and for less than one percent of the total units in multifamily properties financed by mortgages Freddie Mac purchased.

Fannie Mae purchased mortgages financing 12,552 low-income units in 5 to 50 unit multifamily properties in 2010, 13,480 such units in 2011, 16,801 such units in 2012 and 13,827 such units in 2013. These volumes were significantly lower than Fannie Mae's volumes in the years before the mortgage crisis. Fannie Mae purchased mortgages financing at least 40,000 low-income units in small multifamily properties each year between 2006 and 2008, peaking at 58,931 such units in 2007. Freddie Mac played a much smaller role than Fannie Mae in the small multifamily property market, purchasing mortgages financing 365 low-income units in small multifamily properties in 2010, 691 such units in 2011, 829 such units in 2012, and 1,128 such units in 2013. **Table 4** reflects the number of low-income units in small multifamily properties financed by mortgages purchased by the Enterprises in 2006-2013.

Table 4
Enterprise Funding of Low-Income Units in Small Multifamily Properties, 2006-13
("Small multifamily properties" are those with 5-50 units)

	Enterprise					
		Fannie Mae			Freddie Mac	
Year	LI Units	Total Small Units	Low-Income %	LI Units	Total Small Units	Low-Income %
2013	13,827	21,764	63.5%	1,128	2,375	47.5%
2012	16,801	26,479	63.5%	829	2,194	37.8%
2011	13,480	22,382	60.2%	691	2,173	31.8%
2010	12,552	20,810	60.3%	459	1,978	23.2%
2009	13,466	21,934	61.4%	528	1,619	32.6%
2008	43,782	82,706	52.9%	1,879	3,391	55.4%
2007	59,015	111,221	53.1%	2,147	3,522	61.0%
2006	40,631	60,174	67.5%	773	1,467	52.7%

Source: Funding as reported by the Enterprises for 2013; as calculated by FHFA for 2006-12. "Low-income" refers to units affordable to renters with incomes no greater than 80 percent of Area Median Income (AMI), based on a rental proxy.

Note: Figures do not include units financed by the purchase of commercial mortgage-backed securities (CMBS).

3. Additional Factors: Ability of the Enterprises to Lead the Market in Making Small Multifamily Mortgage Credit Available and Need to Maintain Sound Financial Condition of the Enterprises

In setting the proposed low-income housing subgoal for small multifamily properties, FHFA has considered the ability of the Enterprises to lead the market in making multifamily mortgage credit available (Factor 4). As discussed above, the Enterprises have played a smaller role in the market for mortgages on small multifamily properties than their role in the overall multifamily mortgage market. Both Enterprises currently purchase some mortgages on small multifamily properties, though Freddie Mac purchases few such mortgages at this time. The new low-income housing subgoal for small multifamily properties would encourage the Enterprises to increase their participation in the small multifamily mortgage market. FHFA will continue to assess the impact of Enterprise participation in the small multifamily mortgage market and may adjust the benchmark levels for the low-income housing subgoal for small multifamily properties as necessary.

In setting the proposed low-income housing subgoal for small multifamily properties, FHFA has also considered the importance of maintaining the Enterprises in sound and solvent financial condition (Factor 6). The delinquency rates for Fannie Mae's overall multifamily loan purchases are very low, and the delinquency rates are also very low for the subset of those loans that are on small multifamily properties. There is less data available on the performance of small multifamily loans held by banks and thrifts, since detailed reporting data is not available or is combined with reporting on other income-producing properties. However, there is no evidence to suggest that expanding the Enterprises' support for small multifamily properties will affect their financial condition or will negatively impact the performance of their loan portfolios as long as prudential judgments about such loans continue to be made.

FHFA continues to monitor the activities of the Enterprises, both in FHFA's capacity as safety and soundness regulator and as conservator. If necessary, FHFA will make any appropriate changes in the low-income housing subgoal for small multifamily properties to ensure their continued safety and soundness.

B. Proposed Benchmark Levels for the Low-Income Housing Subgoal for Small Multifamily Properties

Proposed § 1282.13(d) would establish different small multifamily subgoal levels for each of the Enterprises, with Fannie Mae having higher requirements than Freddie

Mac.[40] The annual subgoal proposed for Fannie Mae would be at least 20,000 low-income units for 2015, at least 25,000 such units for 2016, and at least 30,000 such units for 2017. The annual subgoal proposed for Freddie Mac would be at least 5,000 low-income units for 2015, at least 10,000 such units for 2016, and at least 15,000 such units for 2017.

In setting the proposed benchmark levels for the low-income housing subgoal for small multifamily properties, FHFA has considered the limited role that the Enterprises have played in the past and the challenges in financing small multifamily properties. The proposed rule would gradually increase the level of activity of the Enterprises in this market, allowing FHFA to assess the impacts of increased Enterprise purchases of mortgages on small multifamily properties. The proposed subgoal levels for Fannie Mae are higher than the proposed subgoal levels for Freddie Mac because FHFA recognizes that Freddie Mac's entry into the small multifamily market would entail adjustments to its staffing, loan programs, and underwriting protocols. However, setting gradually increasing subgoal levels would provide an incentive for Freddie Mac to develop an effective small multifamily property lending program.

The challenges in providing financing for small multifamily properties include a lack of standardization, which can make the credit risk of small loans more difficult and time-consuming to assess. The lack of standardization can also make the origination process more costly and can make it more difficult to include small loans in securitizations for sale to investors. While small multifamily properties may tend to be more affordable than larger properties, it may be relatively less profitable to originate and

[40] The proposed rule would also make a number of conforming changes throughout part 1282 to reflect the addition of this proposed new small multifamily subgoal.

service small loans. Many small multifamily property lenders are banks that have a retail presence in communities and originate loans for portfolio without securitizing them. The variation among lenders that support small multifamily lending also makes sourcing, pooling and securitizing small multifamily loans a greater challenge for the Enterprises.[41]

The challenges in supporting mortgage lending for small multifamily properties are even greater for properties with 24 or fewer units than for properties with between 25 and 50 units. While the low-income subgoal for small multifamily properties would include all properties with 5 to 50 units, FHFA expects that most Enterprise purchases of mortgages on small multifamily properties will be on properties between 25 and 50 units. The 2012 Rental Housing Finance Survey (RHFS) provides information on the characteristics of multifamily properties that have 5 to 24 units and properties that have 25 to 49 units.[42] Multifamily properties that have 25 to 49 units, unlike smaller 5 to 24 unit properties, have operating characteristics that are similar to those of 50+ unit properties. For example, 25 to 49 unit properties and 50+ unit properties are more likely to be operated by a third party property management firm, have a mortgage, and be newer than 5 to 24 unit properties. The Enterprises should be able to provide additional liquidity to these larger small multifamily properties (i.e., 25 to 50 units), in light of the similarities of this property group to larger multifamily properties. In fact, data provided by Fannie Mae shows that about 73 percent of all small family units it financed in 2013 were in 25 to 50 unit properties.

---

[41] See Fannie Mae, "Fannie Mae's Role in the Small Multifamily Loan Market" (First Quarter 2011), https://www.fanniemae.com/content/fact_sheet/wpmfloanmkt.pdf.
[42] Rental Housing Finance Survey (2012), http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2013/HUDNo.13-035. Although the RHFS data does not match FHFA's proposed definition of small multifamily properties precisely (RHFS uses 5 to 49 units instead of 5 to 50 units), the difference is not material.

While the new low-income small multifamily subgoal would require the Enterprises to increase their activity in the small multifamily markets, the proposed subgoal levels are low relative to the size of the overall small multifamily market. By proposing relatively low subgoal levels initially, FHFA will have an opportunity to assess the impact of the new subgoal. In the meantime, FHFA welcomes comments on the market impacts that are likely to result if the Enterprises increase their purchases of mortgages on small multifamily properties. For example, if there is unmet demand for different lending products, it is possible that additional support from the Enterprises could result in a wider array of long-term, fixed-rate financing options to small multifamily property borrowers. Fannie Mae and Freddie Mac might be able to offer small multifamily property owners better mortgage terms (10-year fixed-rate) and lower financing costs than other sources of financing. Owners of small multifamily properties are more likely to have an Adjustable Rate Mortgage (ARM) or a balloon mortgage than owners of large multifamily properties.[43] ARMs usually have loan terms ranging from 1 to 5 years, with frequent rate adjustments that are based on changes to the LIBOR index, while balloon mortgages must be paid off after a specific time period, usually five years. Without long-term financing, small multifamily property owners may have to raise rents or reduce expenses (or defer property maintenance) if adjustable interest rates rise. Fixed rate financing also provides small multifamily property owners with a predictable monthly mortgage payment for a longer loan term. These savings would lock in lower owner expenses for a multi-year period and may result in lower and more stable rents for low-income tenants. On the other hand, if the current market for lending to small

[43] "Rental Housing Finance Survey," Tables 2b, 2c, 2d and 3 (March 27, 2013), http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2013/HUDNo.13-035.

multifamily properties is providing adequate long-term, fixed rate financing options for small multifamily property owners and investors, it is possible that the Enterprises would simply be competing on the same terms with existing sources of liquidity for small multifamily properties.

FHFA welcomes comment on all aspects of the proposed small multifamily subgoals, including the feasibility of the proposed goal levels for Fannie Mae and Freddie Mac, as well as on possible impacts that may result from increased Enterprise purchases of mortgages on small multifamily properties.

VII. Reporting Requirements for Single-Family Rental Units

Starting in 2015, FHFA plans to require the Enterprises to submit more detailed information regarding Enterprise purchases of mortgages secured by single-family rental properties, whether they are investor-owned or owner-occupied (with one or more rental units in addition to the owner-occupied unit). This reporting would fall within the scope of the existing regulation, so no changes to the text of the regulation are necessary. A description of FHFA's plans for additional reporting is included in this section of the preamble in order to provide an opportunity for the public to provide feedback to FHFA.

Single-family rental units make up a significant percentage of the housing stock, especially the affordable housing stock. The housing goals in effect since 2010 cover single-family owner-occupied properties and multifamily rental properties, but the housing goals do not include or track rental units in single-family buildings. Counting all single-family rental units would include rental units in owner-occupied single-family properties and rental units in investor-owned single-family rental properties.

The current housing goals regulation requires the Enterprises to report annually to FHFA in their Annual Mortgage Reports (AMRs) on their purchases of all mortgages on owner-occupied and rental properties, regardless of whether the mortgage may be counted for purposes of the housing goals.[44] The regulation provides that the AMRs must include loan-level data on each mortgage purchased, as well as aggregations compiled by the Enterprises in a format prescribed by FHFA. The AMRs currently submitted to FHFA by the Enterprises include tables on various aspects of multifamily rental units financed, including the distribution of multifamily units by affordability of rent (AMR Table 3), by minority concentration of census tract (AMR Table 8), and by state (AMR Table 10B).

FHFA plans to revise the tables that the Enterprises will be required to submit so that the tables include rental units in all single-family owner-occupied and investor-owned properties. In this way, the AMRs will provide more complete information on the Enterprises' financing of all rental units, whether in multifamily or in single-family rental properties. The additional information that is reflected in the tables will provide insight into the extent to which Enterprise purchases are supporting single-family rental properties that otherwise meet the criteria for each of the single-family housing goals applicable to owner-occupied properties.

VIII. Section-by-Section Analysis of Other Proposed Changes

The proposed rule would also revise other provisions of the housing goals regulation, as discussed below.

A. Changes to Definitions—Proposed § 1282.1

[44] 12 CFR 1282.62(b).

The proposed rule includes changes to definitions used in the current housing goals regulation, including: (1) definitions related to rent and utilities; (2) the definition of "dwelling unit"; and (3) other definitions.

1. Definitions Related to Rent and Utilities

Definition of "rent." The proposed rule would consolidate and simplify several terms that are defined separately in the current rule. The proposed rule would delete the separate definitions for "contract rent" and "utility allowance," and the substance of those definitions would be included in a revised definition of "rent." In addition, the proposed rule would consolidate all of the current provisions related to unoccupied units, including model units and rental offices, into a single provision to be located at § 1282.15(d)(3).

As proposed, the revised definition of rent would mean the actual rent for a dwelling unit, or the average rent by unit size for a particular property. It would include the combined rent for all bedrooms in the dwelling unit. To ensure comparable measurement of affordability, rent would take the cost of utilities into account, either by using rents that include utilities, or, if the rents do not include utilities, by adding the actual cost of utilities or a utility allowance.

Utility allowances. Under the current rule, FHFA requires the Enterprises to take into account the cost of utilities for rental units in determining affordability for purposes of the housing goals. The current definition of "rent" provides that if the contract rent includes all utilities, the Enterprises must use the contract rent to determine affordability. If the contract rent does not include all utilities, the Enterprises may use either: (a) data on the actual cost of utilities paid by the tenant but not included in the contract rent, or (b) a "utility allowance."

The proposed rule would expand the sources of information that may be used for determining utility allowances. The current definition of “utility allowance” allows the use of either a nationwide average utility allowance or the utility allowance established under the U.S. Department of Housing and Urban Development (HUD) Section 8 Program for the area where the property is located. In addition to using the actual cost of utilities, the proposed rule would allow the Enterprises to use any of the following options: (a) a nationwide average utility allowance provided by FHFA; (b) the utility allowance established under the HUD Section 8 Program for the area where the property is located; or (c) the utility allowance established by the state or local housing finance agency for use in determining the affordability of low-income housing tax credit properties for the area where the property is located.

FHFA currently relies on nationwide utility allowances that were issued by HUD, the Enterprises’ former mission regulator, prior to the creation of FHFA in 2008. These averages were based on the American Housing Survey (AHS) for 2005, and they also depend on the size of the unit and whether it is in a multifamily or single-family property. The current averages are as follows:

Type of Property	Number of Bedrooms			
	Efficiency	1	2	3 or more
Multifamily	$74	$79	$112	$152
Single-family	$74	$112	$158	$213

Separate from this rulemaking, FHFA plans to issue updated figures for the nationwide average utility allowance option, as more recent AHS data becomes available. Because the nationwide average utility allowance numbers are not included in the regulation itself, FHFA will provide any updated nationwide average utility allowances to the Enterprises by letter. These letters will be posted on FHFA's website.

Based on the most recent AHS data currently available, the revised nationwide average utility allowances would be as follows:

Type of Property	Number of Bedrooms			
	Efficiency	1	2	3 or more
Multifamily	$62	$93	$131	$177
Single-family	$91	$125	$184	$253

These numbers may be updated further when new AHS data becomes available. Although the nationwide average utility allowance numbers are not included in the regulation itself, FHFA welcomes comments on the preliminary numbers provided above.

<u>Definition of "rental unit</u>." The current rule includes separate definitions for "rental housing" and "rental unit." The definitions are substantially the same, so the proposed rule would streamline the rule by deleting the term "rental housing" in § 1282.1, and by replacing "rental housing" with "rental units" in § 1282.17, the only other place that the term "rental housing" appears.

<u>Definition of "utilities</u>." The current rule excludes charges for cable and telephone services from the definition of "utilities." The proposed rule would revise the existing definition of "utilities" to expand the list of excluded services. The revised definition would exclude all subscription-based television, telephone and internet services (regardless of whether provided by a cable provider or other provider).

<u>2. Definition of "Dwelling Unit"—Shared Living Arrangements</u>

The proposed rule would revise the definition of "dwelling unit" to include only units with complete plumbing and kitchen facilities. The revised definition is intended to address shared living arrangements, where separate individuals rent separate bedrooms but share common areas and cooking and sanitary facilities. In those circumstances, all bedrooms sharing the same plumbing and kitchen facilities would be treated as a single dwelling unit. For example, four individuals living in a shared living arrangement with separate bedrooms but with shared bathrooms and kitchen would be considered a single dwelling unit with four bedrooms rather than four efficiency units. For purposes of determining affordability under the housing goals, the rent for the dwelling unit would be the aggregate of all rent payments made by all of the individuals residing in the dwelling unit, even if each individual who resides in a bedroom has entered into a separate lease agreement or if the bedrooms have separate locks.

This change is intended to clarify the appropriate calculation of rent for dwelling units in student housing and seniors housing that involve group living or shared living arrangements in a single dwelling unit.

3. Additional Definition Changes

This proposed rule would remove two definitions that are not used anywhere in the current rule, other than the definitions themselves: “HMDA” and “working day.”

The proposed rule would also revise the definition of “families in low-income areas” to remove the reference to “block numbering areas.” This change would conform the words used in the definition to the terminology currently used by the U.S. Census Bureau. The proposed rule would also revise the existing definition of “HOEPA mortgage” to reflect renumbering in the statute cited in the definition.

Other definitional changes in § 1282.1 are discussed below in the corresponding section dealing with the substantive provisions to which the definitions relate. These changes include: (i) deleting the definitions of "mortgage with unacceptable terms or conditions" and "rental housing"; and (ii) adding new definitions for "efficiency," "seniors housing unit," "skilled nursing unit," and "small multifamily property."

B. Determining Affordability—Proposed § 1282.15

The proposed revisions discussed below would amend the existing rule by revising the process for determining affordability. Some provisions are being revised or eliminated because they are no longer necessary based on the affordability information that is available to the Enterprises. Other provisions are being amended or added to provide greater clarity and to minimize cases where a unit may be treated as affordable when it actually is not.

1. Use of Median Incomes

The proposed rule would revise § 1282.15(b)(1) to provide that affordability would be determined based on the area median income as of the date the mortgage loan originated, rather than the date of the mortgage application. The data that is reported to the Enterprises typically includes an origination date, and this date is used by the Enterprises for purposes of determining affordability. This change would conform the regulatory language to the existing practice of the Enterprises.

2. No Estimation of Affordability for Single-Family Owner-Occupied Units

Currently, the housing goals rule allows the Enterprises to estimate the affordability of single-family owner-occupied properties where the borrower income is not available. The proposed rule would revise § 1282.15(b) by removing the affordability estimation provisions in paragraphs (b)(2) and (b)(3) and by providing that mortgages where the borrower's income is not available would not be counted in the numerator for any of the housing goals. Mortgages where the borrower's income is not available would still be included in the denominator. This treatment of mortgages with missing borrower income would be similar to the treatment of HOEPA loans under § 1282.16(d).

3. Multifamily Affordability Based on Rents, Not Incomes

The proposed rule would revise § 1282.15(d), including removing paragraph (d)(1), to provide that affordability for rental housing will be determined based solely on rents. The current rule provides that affordability for rental housing is to be determined based on the tenant's income, if available, and based on rents if the tenant's income is not available. Because lenders generally do not collect income information on tenants, the Enterprises use rents in all cases (except seniors housing units) to determine affordability for purposes of the housing goals. Therefore, this change would conform the rule to the Enterprises' actual practices and would recognize the general unavailability of tenant income data. The proposed revision also would more closely align the rule language with section 1333(c) of the Safety and Soundness Act, which provides that FHFA shall evaluate the performance of the Enterprises under the multifamily housing goals "based on whether the rent levels are affordable."

4. Reduced Cap on Estimating Affordability for Multifamily Properties

The proposed rule would also revise § 1282.15(e)(3) to reduce the number of multifamily units for which the Enterprise is permitted to estimate the rental amount. An Enterprise is permitted to use estimated rent for purposes of determining affordability, but only in the case of missing data or information. Currently, § 1282.15 permits an

Enterprise to estimate affordability for up to 10 percent of its multifamily units in a given year. The proposed rule would reduce this cap to 5 percent.

Missing data rates for multifamily mortgages purchased by the Enterprises are generally very low, given the Enterprises' requirements for submission of underwriting and property level information from its lenders as of the date of mortgage acquisition. However, estimating rent affordability will continue to be necessary for seniors housing where expenses for resident services are included in the rent. Seniors housing units with such additional services are currently excluded from the cap on estimating affordability because of the difficulty separating out housing and non-housing related expenses. The proposed rule would no longer exclude seniors housing from the cap on estimating affordability. Although estimation will continue to be required to determine affordability for seniors housing with additional services, the volumes of such purchases by the Enterprises are relatively small, such that estimation would continue to be possible for the Enterprises even with a 5 percent cap.

5. Reliance on Subsidy Program Requirements for Determining Affordability of Rents

FHFA is also proposing a new counting rule for rental housing where affordability of the rents can be determined based on affordability restrictions imposed by local, state or federal affordable housing subsidy program requirements. Proposed § 1282.15(d)(2) would permit an Enterprise to determine affordability of the units based on the maximum permitted income level for a tenant or a prospective tenant or the maximum permitted rent in the units that are subject to an affordability restriction under any local, state or federal program. In this way, the Enterprises would be permitted to automatically receive goals credit for any units they finance that are deemed to be affordable by the applicable subsidy program. An example of an applicable subsidy program includes low-income housing tax credit units, with units restricted for occupancy by tenants at 50 percent of area median income receiving credit toward the very low-income multifamily housing subgoal and units restricted at 60 percent of area median income receiving credit toward the low-income multifamily housing goal. The Enterprises would also be required to show that the tax credit or other monitoring agency that exercises regulatory oversight has determined that the units are in compliance with the affordability restrictions.

6. Missing Bedroom Data

The proposed rule would revise § 1282.15(e)(1) to provide that rental units for which bedroom data are missing shall be considered efficiencies for the purposes of calculating unit affordability. Proposed § 1282.1 would add a definition of "efficiency" to mean a dwelling unit having no separate bedrooms, or 0 bedrooms. Determining affordability of a rental unit requires adjustments to household size based on the number of bedrooms in a unit. However, this adjustment is not possible when bedroom data is unavailable. The proposed rule seeks to balance the effect of missing bedroom data with proper administration of the regulation by recognizing that the Enterprise in fact purchased the mortgage secured by the rental unit but only giving credit if it qualifies for the lowest-rent unit permitted to receive goals credit under the rule.

7. Changes to Reflect U.S. Census Bureau Terminology

Section 1282.15(g)(2) would be revised to eliminate outdated terminology. Due to changes implemented by the U.S. Census Bureau, it is no longer necessary to include references to the "block-group enumeration district" or the "nine-digit zip code," or to include the option to use other geographic divisions to address "split areas."

C. Skilled Nursing Units—Proposed § 1282.16(b)(15)

Proposed § 1282.16(b)(15) would codify the existing treatment of skilled nursing units, which is to exclude them from counting for purposes of the housing goals. "Skilled nursing units" would be defined as units in multifamily properties that are licensed to provide medical services to seniors. Skilled nursing units differ substantially from other types of housing units in that they are intended to be used for medical purposes, and housing is incidental to those purposes.

D. Determining Affordability for Blanket Loans on Cooperative Housing—Proposed § 1282.16(c)(5)

As discussed elsewhere, the proposed rule would revise § 1282.15(d) to require the Enterprises to use rent levels to determine the affordability of rental units. In the case of blanket loans on housing cooperatives (i.e., a loan that is secured by the entire property), there are no rent data available because all units are owned by the cooperative in which each unit resident owns shares. Owning shares allows the holder to occupy one or more units in the property. Shareholders pay a monthly fee to cover expenses for common area upkeep and maintenance and to pay their pro rata share of any blanket loan payments. In 2013, blanket loans on cooperative housing accounted for 2.7 percent and 1.4 percent of multifamily mortgages purchased by Fannie Mae and Freddie Mac, respectively.

Historically, the Enterprises have used an estimated rent methodology (or "rent proxy") to determine the percentage of low- and very low-income eligible units in cooperative properties without rent information.[45] This estimate permitted the Enterprises to use the percentage of low- and very low-income affordable rental units (by unit size) located in the census tract where the cooperative property is located. For example, if a cooperative property is in a census tract where properties average a certain percentage of low- and very low-income units, then the cooperative property would be assumed to have the same percentage of low- and very low-income units.

In some geographic areas, particularly in some parts of New York City, the rent estimation methodology may significantly overstate the number of low- and very low-income units eligible for goals credit in a specific cooperative property. This is because some census tracts in these geographic areas have great variations in unit rents, resulting from the large number of subsidized, rent controlled, and rent stabilized units that are in close proximity to luxury market rate housing.

Due to these concerns, proposed § 1282.16(c)(5) would provide that the affordability of units securing a blanket loan on a cooperative property be determined solely on the basis of comparable market rents that were used by the lender in underwriting the blanket loan. If the underwriting rents are not available for the blanket loan on a cooperative property, the units may not be counted toward achievement of the multifamily housing goals.

Share loans used by residents to finance the purchase of a cooperative unit would remain eligible for credit under the single-family housing goals, even if the Enterprise also holds a blanket loan on the same cooperative property that may be eligible for multifamily housing goals credit.

[45] 12 CFR 1282.15(e).

E. Seniors Housing—Proposed § 1282.16(c)(15)

The proposed rule would codify the existing treatment of seniors housing under the housing goals rule. Proposed § 1282.1 would define a "seniors housing unit" as a dwelling unit in a multifamily property in which occupancy is restricted to households with at least one individual age 55 or above. In 2013, mortgages backed by seniors housing units accounted for 2.6 percent and 2.2 percent of multifamily mortgages purchased by Fannie Mae and Freddie Mac, respectively.

The proposed rule would not permit seniors housing units with large up-front fees to be counted for purposes of the multifamily housing goals. Currently, seniors housing units are counted for purposes of the housing goals, provided that the units meet the requirements that apply generally for multifamily housing. However, some seniors housing units require that prospective residents pay a large up-front fee as a condition of occupancy in addition to the monthly rent. Such up-front fees are a form of prepaid rent and can amount to tens or even hundreds of thousands of dollars. The proposed rule would exclude such units from the housing goals because the existence of the large up-front fees makes it difficult to assess affordability, and because in most instances the large up-front fees mean that the units would not be affordable to low-income or very low-income families anyway.

For purposes of determining affordability, the proposed rule would differentiate between seniors housing units based on whether additional services are included in the monthly rent paid by the tenant. Seniors housing units with no additional services would be treated as ordinary multifamily units with affordability determined based on the unit rent. Seniors housing units for which additional services are included in the monthly rent would be treated as units with missing data, allowing the Enterprises to estimate unit affordability using the rent proxy method.

F. Mortgages with Unacceptable Terms or Conditions—Proposed § 1282.16(d)

The proposed rule would amend the housing goals provision in § 1282.16(d) that prohibits the Enterprises from receiving housing goals credit for purchases of certain types of mortgages. The proposed rule would eliminate the reference to "mortgages with unacceptable terms or conditions" in § 1282.16(d), and it would also remove the definition of "mortgage with unacceptable terms or conditions" in § 1282.1. The proposed rule would maintain the current prohibition on receiving housing goals credit for purchases of HOEPA mortgages.

The current rule defines "mortgages with unacceptable terms or conditions" to include single-family mortgages with excessive interest rates or costs, mortgages with certain prepayment penalties, and mortgages with prepaid credit life insurance. "Mortgages with unacceptable terms or conditions" also currently include mortgages with terms contrary to banking regulator guidance on nontraditional and subprime lending and mortgages originated using practices that do not comply with fair lending requirements.

FHFA is proposing to eliminate the provisions related to "mortgages with unacceptable terms or conditions" in order to reflect the regulatory changes in effect as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Act seeks to promote responsible lending practices by, for example, prohibiting no documentation lending and single-premium credit insurance financing. In addition, the law defines a class of mortgages as "Qualified Mortgages" that restrict certain mortgage terms. FHFA has required the Enterprises to limit purchases to those that meet Qualified

Mortgage product characteristics. As a result of this FHFA requirement and the Enterprises' own mortgage purchase eligibility criteria, the Enterprises purchase virtually no mortgages that would have been considered "mortgages with unacceptable terms and conditions" under the current housing goals.

In addition, the housing goals are not the most effective regulatory tool available for FHFA to discourage purchases of predatory or otherwise unsuitable mortgages. FHFA has regulatory authority to directly prohibit purchases of any types of mortgages it determines are unsuitable. To the extent FHFA identifies any types of mortgages that meet Qualified Mortgage product criteria yet are not suitable for the Enterprises or for borrowers, FHFA may restrict Enterprise purchases of such mortgages in the future.

G. Housing Goals Guidance—Proposed § 1282.16(e)

Section 1282.16(e) of the current rule provides that FHFA may from time to time issue determinations regarding the appropriate treatment of particular transactions or classes of transactions under the housing goals. The proposed rule would renumber this paragraph as § 1282.16(d) and would add a new provision requiring FHFA to make any determinations issued under the paragraph available to the public on FHFA's website, www.fhfa.gov.

This change is intended to ensure that both Enterprises and any other interested parties are aware of any guidance that FHFA provides to either Enterprise regarding the appropriate housing goals treatment of any transactions in which they may engage, whether or not those transactions are covered in the housing goals regulation. FHFA and its predecessor agency, HUD, from time to time have issued guidance on particular issues. This proposed rule would incorporate a number of those past determinations, such as the appropriate treatment of seniors housing units or skilled nursing units, into the text of the regulation. To promote clear and consistent treatment of all transactions engaged in by either Enterprise, FHFA will make any other guidance that is issued available on FHFA's website.

IX. Comments Requested on Specific Topics

As noted above, FHFA encourages commenters to address all aspects of the proposed rule, including the proposed benchmark levels for each of the housing goals, the possible changes to the retrospective market approach, and the other changes described in this preamble and rule. In addition, FHFA requests comments on the specific topics described in this section.

A. Blanket Loans on Manufactured Housing Parks

A blanket loan on a manufactured housing park is a loan secured by land that has been developed for the placement of manufactured homes. Fannie Mae currently purchases blanket loans on manufactured housing parks, and Freddie Mac has also recently announced a loan program to do so. However, blanket loans on manufactured housing parks are currently excluded from the housing goals. This treatment is different from the treatment of blanket loans on cooperative buildings and condominium projects, purchases of which are treated as mortgage purchases for purposes of the multifamily housing goals.

The proposed rule would not change the current treatment of blanket loans on manufactured housing parks under the housing goals. However, FHFA is requesting comment on whether this policy should be changed. FHFA may make a determination in the final rule on whether or not to allow blanket loans on manufactured housing parks to be counted for purposes of the multifamily housing goals. Alternatively, FHFA may instead defer consideration of the appropriate treatment of blanket loans on manufactured housing parks under the housing goals and instead address it as part of the separate, upcoming proposed rulemaking on the duty to serve underserved markets under section 1335 of the Safety and Soundness Act.[46]

Allowing blanket loans on manufactured housing parks to be counted for purposes of the multifamily housing goals could encourage additional support for a form of housing that is particularly important for low-income and very low-income families. In addition, many parks are in rural areas where real estate loans are difficult to obtain or have unfavorable interest rates and terms. Additional Enterprise purchases of blanket loans on manufactured housing parks may increase access to fixed rate, long term financing at a relatively low interest rate.

If FHFA determines to include such loans, FHFA invites comments on whether goals eligibility for manufactured housing parks should be considered only for parks that are cooperatively owned by their residents, or if goals eligibility should also include investor-owned rental parks. Many investor-owned parks do not provide resident protections against steep rent increases, lease cancellations, or redevelopment of the property for other uses. It is more difficult and costly for a manufactured housing park resident to move than a resident of a typical “brick and mortar” rental property. However, it is possible that increased Enterprise activity in this area could result in more favorable loan terms for park owners, which could in turn reduce the need for owners to

[46] 12 U.S.C. 4565.

raise rents. Residents could also benefit from additional eligibility standards for manufactured housing parks that, for example, Fannie Mae currently imposes.

If FHFA allows blanket loans on manufactured housing parks to be counted for purposes of the housing goals under the final rule, FHFA would consider defining "manufactured housing park" as "a tract of land under unified ownership developed for the purpose of providing individual rental spaces for the placement of manufactured homes within its boundaries." FHFA would also consider limiting housing goals credit to occupied units located in the park, rather than the total number of rental spaces available. FHFA also requests comment on how to determine whether units are affordable or not, particularly if rents are not available or do not include the full cost of housing for residents.

Finally, if FHFA allows blanket loans on manufactured housing parks to be counted for purposes of the housing goals, the proposed goal levels would be relatively easier for the Enterprises to achieve. For example, between 2011 and 2013, Fannie Mae's annual volume of purchases of blanket loans on manufactured housing parks ranged from $500 million to $1 billion.[47] While those volumes are small relative to Fannie Mae's overall multifamily purchases, they are large enough that counting blanket loans on manufactured housing parks could increase to the measured performance of Fannie Mae on the multifamily housing goals. As a result, FHFA encourages commenters to address whether the proposed levels of the multifamily housing goals should be increased to reflect the expanded scope of the goals if FHFA allows blanket loans on manufactured housing parks to be counted.

---

[47] Fannie Mae, Fact Sheet, "Fannie Mae Multifamily Mortgage Business Information" (May 2014), https://www.fanniemae.com/content/fact_sheet/multifamily-business-information-may-2014.pdf.

B. Measurement of the Market

FHFA’s measurement of the single-family mortgage market, which is used to set the benchmark levels and determine the retrospective market share for the single-family housing goals, is intended to reflect the portion of the overall single-family market that is eligible for purchase by the Enterprises. However, in defining the measurement of the market, FHFA currently excludes mortgages with “rate spreads of 150 basis points or more above the applicable average prime offer rate as reported in the Home Mortgage Disclosure Act data.”[48] Some mortgages purchased by the Enterprises may have rate spreads that exceed 150 basis points above the average prime offer rate while still meeting the Enterprises’ established underwriting criteria (which exclude HOEPA loans) and the limitation on purchasing loans that do not meet the Qualified Mortgage product characteristics. FHFA requests comment on whether mortgages with rate spreads that exceed 150 basis points above the average prime offer rate should continue to be excluded from FHFA’s measurement of the market. FHFA encourages commenters to also address whether the current cut-off of 150 basis points above the applicable average prime offer rate should be maintained, or whether a higher rate spread threshold should be established.

X. Paperwork Reduction Act

The proposed rule would not contain any information collection requirement that would require the approval of the Office of Management and Budget (OMB) under the Paperwork Reduction Act (44 U.S.C. 3501 et seq.). Therefore, FHFA has not submitted any information to OMB for review.

[48] 12 CFR 1282.12(b)(5).

XI. Regulatory Flexibility Act

The Regulatory Flexibility Act (5 U.S.C. 601 et seq.) requires that a regulation that has a significant economic impact on a substantial number of small entities, small businesses, or small organizations must include an initial regulatory flexibility analysis describing the regulation's impact on small entities. Such an analysis need not be undertaken if the agency has certified that the regulation will not have a significant economic impact on a substantial number of small entities. 5 U.S.C. 605(b). FHFA has considered the impact of the proposed rule under the Regulatory Flexibility Act. The General Counsel of FHFA certifies that the proposed rule, if adopted as a final rule, is not likely to have a significant economic impact on a substantial number of small entities because the regulation applies to Fannie Mae and Freddie Mac, which are not small entities for purposes of the Regulatory Flexibility Act.

List of Subjects in 12 CFR Part 1282

Mortgages, Reporting and recordkeeping requirements.

Authority and Issuance

For the reasons stated in the **Supplementary Information**, under the authority of 12 U.S.C. 4511, 4513 and 4526, FHFA proposes to amend part 1282 of Title 12 of the Code of Federal Regulations as follows:

CHAPTER XII—FEDERAL HOUSING FINANCE AGENCY

SUBCHAPTER E—HOUSING GOALS AND MISSION

PART 1282—ENTERPRISE HOUSING GOALS AND MISSION

1. The authority citation for part 1282 continues to read as follows:

Authority: 12 U.S.C. 4501, 4502, 4511, 4513, 4526, 4561-4566.

2. Amend § 1282.1 as follows:

a. Remove the definitions of "Contract rent," "HMDA," "Mortgage with unacceptable terms or conditions," "Rental housing," "Utility allowance," and "Working day";

b. Revise the definitions of "Dwelling unit," "Families in low-income areas," "HOEPA mortgage," "Rent," and "Utilities"; and

c. Add definitions for "Efficiency," "Seniors housing unit," "Skilled nursing unit," and "Small multifamily property" in alphabetical order.

The revisions and additions read as follows:

§ 1282.1 Definitions.

* * * * *

Dwelling unit means a room or unified combination of rooms with complete plumbing and kitchen facilities intended for use, in whole or in part, as a dwelling by one or more persons, and includes a dwelling unit in a single-family property, multifamily property, or other residential or mixed-use property.

Efficiency means a dwelling unit having no separate bedrooms, or 0 bedrooms.

* * * * *

Families in low-income areas means:

(i) Any family that resides in a census tract in which the median income does not exceed 80 percent of the area median income;

(ii) Any family with an income that does not exceed area median income that resides in a minority census tract; and

(iii) Any family with an income that does not exceed area median income that resides in a designated disaster area.

* * * * *

HOEPA mortgage means a mortgage covered by section 103(bb) of the Home Ownership and Equity Protection Act (HOEPA) (15 U.S.C. 1602(bb)), as implemented by the Bureau of Consumer Financial Protection.

* * * * *

Rent means the actual rent or average rent by unit size for a dwelling unit.

(i) Rent is determined based on the total combined rent for all bedrooms in the dwelling unit, including fees or charges for management and maintenance services and any utility charges that are included.

(A) Rent concessions shall not be considered, i.e., the contract rent is not decreased by any rent concessions.

(B) Rent is net of rental subsidies, i.e., the contract rent is decreased by any rental subsidy.

(ii) When the contract rent does not include all utilities, the rent shall also include:

(A) The actual cost of utilities not included in the contract rent;

(B) The nationwide average utility allowance, as issued periodically by FHFA;

(C) The utility allowance established under the HUD Section 8 Program (42 U.S.C. 1437f) for the area where the property is located; or

(D) The utility allowance for the area in which the unit is located, as established by the state or local housing finance agency for determining the affordability of low-income housing tax credit properties under section 42 of the Internal Revenue Code (26 U.S.C. 42).

* * * * *

Seniors housing unit means a dwelling unit in multifamily housing where the property is restricted to occupancy by households with individuals who are age 55 and over.

* * * * *

Skilled nursing unit means a unit in a multifamily property that is dedicated to providing licensed medical care services to individuals who are age 55 and over.

Small multifamily property means any multifamily property with at least 5 dwelling units but no more than 50 dwelling units.

Utilities means charges for electricity, piped or bottled gas, water, sewage disposal, fuel (oil, coal, kerosene, wood, solar energy, or other), and garbage and trash collection. Utilities do not include charges for subscription-based television, telephone or internet service.

* * * * *

3. Amend § 1282.11 by revising paragraph (a)(1) to read as follows:

§ 1282.11   General.

(a) * * *

(1) Three single-family owner-occupied purchase money mortgage housing goals, a single-family owner-occupied purchase money mortgage housing subgoal, a single-family refinancing mortgage housing goal, a multifamily special affordable housing goal and two multifamily special affordable housing subgoals;

* * * * *

4. Revise § 1282.12 to read as follows:

ALTERNATIVE 1—§ 1282.12

§ 1282.12 Single-family housing goals.

(a) Single-family housing goals. An Enterprise shall be in compliance with a single-family housing goal if its performance under the housing goal meets or exceeds either:

(1) The share of the market that qualifies for the goal; or

(2) The benchmark level for the goal.

(b) Size of market. The size of the market for each goal shall be established annually by FHFA based on data reported pursuant to the Home Mortgage Disclosure Act for a given year. Unless otherwise adjusted by FHFA, the size of the market shall be determined based on the following criteria:

(1) Only owner-occupied, conventional loans shall be considered;

(2) Purchase money mortgages and refinancing mortgages shall only be counted for the applicable goal or goals;

(3) All mortgages flagged as HOEPA loans or subordinate lien loans shall be excluded;

(4) All mortgages with original principal balances above the conforming loan limits for single unit properties for the year being evaluated (rounded to the nearest $1,000) shall be excluded;

(5) All mortgages with rate spreads of 150 basis points or more above the applicable average prime offer rate as reported in the Home Mortgage Disclosure Act data shall be excluded; and

(6) All mortgages that are missing information necessary to determine appropriate counting under the housing goals shall be excluded.

(c) Low-income families housing goal. The percentage share of each Enterprise's total purchases of purchase money mortgages on owner-occupied single-family housing that consists of mortgages for low-income families shall meet or exceed either:

(1) The share of such mortgages in the market as defined in paragraph (b) of this section in each year; or

(2) The benchmark level, which for 2015, 2016 and 2017 shall be 23 percent of the total number of purchase money mortgages purchased by that Enterprise in each year that finance owner-occupied single-family properties.

(d) Very low-income families housing goal. The percentage share of each Enterprise's total purchases of purchase money mortgages on owner-occupied single-family housing that consists of mortgages for very low-income families shall meet or exceed either:

(1) The share of such mortgages in the market as defined in paragraph (b) of this section in each year; or

(2) The benchmark level, which for 2015, 2016 and 2017 shall be 7 percent of the total number of purchase money mortgages purchased by that Enterprise in each year that finance owner-occupied single-family properties.

(e) Low-income areas housing goal. The percentage share of each Enterprise's total purchases of purchase money mortgages on owner-occupied single-family housing that consists of mortgages for families in low-income areas shall meet or exceed either:

(1) The share of such mortgages in the market as defined in paragraph (b) of this section in each year; or

(2) A benchmark level which shall be set annually by FHFA notice based on the benchmark level for the low-income areas housing subgoal, plus an adjustment factor reflecting the additional incremental share of mortgages for moderate-income families in designated disaster areas in the most recent year for which such data is available.

(f) Low-income areas housing subgoal. The percentage share of each Enterprise's total purchases of purchase money mortgages on owner-occupied single-family housing that consists of mortgages for families in low-income census tracts or for moderate-income families in minority census tracts shall meet or exceed either:

(1) The share of such mortgages in the market as defined in paragraph (b) of this section in each year; or

(2) The benchmark level, which for 2015, 2016 and 2017 shall be 14 percent of the total number of purchase money mortgages purchased by that Enterprise in each year that finance owner-occupied single-family properties.

(g) Refinancing housing goal. The percentage share of each Enterprise's total purchases of refinancing mortgages on owner-occupied single-family housing that consists of refinancing mortgages for low-income families shall meet or exceed either:

(1) The share of such mortgages in the market as defined in paragraph (b) of this section in each year; or

(2) The benchmark level, which for 2015, 2016 and 2017 shall be 27 percent of the total number of refinancing mortgages purchased by that Enterprise in each year that finance owner-occupied single-family properties.

ALTERNATIVE 2—§ 1282.12

§ 1282.12 Single-family housing goals.

(a) Single-family housing goals. An Enterprise shall be in compliance with a single-family housing goal if its performance under the housing goal meets or exceeds the benchmark level for the goal.

(b) Low-income families housing goal. For 2015, 2016 and 2017, the benchmark level for each Enterprise's purchases of purchase money mortgages on owner-occupied single-family housing that consist of mortgages for low-income families shall be 23 percent of the total number of purchase money mortgages purchased by that Enterprise in each year that finance owner-occupied single-family properties.

(c) Very low-income families housing goal. For 2015, 2016 and 2017, the benchmark level for each Enterprise's purchases of purchase money mortgages on owner-occupied single-family housing that consist of mortgages for very low-income families shall be 7 percent of the total number of purchase money mortgages purchased by that Enterprise in each year that finance owner-occupied single-family properties.

(d) Low-income areas housing goal. For 2015, 2016 and 2017, the benchmark level for each Enterprise's purchases of purchase money mortgages on owner-occupied single-family housing that consist of mortgages for families in low-income areas shall be set annually by FHFA notice based on the benchmark level for the low-income areas housing subgoal, plus an adjustment factor reflecting the additional incremental share of mortgages for moderate-income families in designated disaster areas in the most recent year for which such data is available.

(e) Low-income areas housing subgoal. For 2015, 2016 and 2017, the benchmark level for each Enterprise's purchases of purchase money mortgages on owner-occupied single-family housing that consist of mortgages for families in low-income census tracts or for moderate-income families in minority census tracts shall be 14 percent of the total number of purchase money mortgages purchased by that Enterprise in each year that finance owner-occupied single-family properties.

(f) Refinancing housing goal. For 2015, 2016 and 2017, the benchmark level for each Enterprise's purchases of refinancing mortgages on owner-occupied single-family housing that consist of refinancing mortgages for low-income families shall be 27 percent of the total number of refinancing mortgages purchased by that Enterprise in each year that finance owner-occupied single-family properties.

ALTERNATIVE 3—§ 1282.12

§ 1282.12 Single-family housing goals.

(a) Single-family housing goals. An Enterprise shall be in compliance with a single-family housing goal if its performance under the housing goal meets or exceeds the share of the market that qualifies for the goal.

(b) Size of market. The size of the market for each goal shall be established annually by FHFA based on data reported pursuant to the Home Mortgage Disclosure Act for a given year. Unless otherwise adjusted by FHFA, the size of the market shall be determined based on the following criteria:

(1) Only owner-occupied, conventional loans shall be considered;

(2) Purchase money mortgages and refinancing mortgages shall only be counted for the applicable goal or goals;

(3) All mortgages flagged as HOEPA loans or subordinate lien loans shall be excluded;

(4) All mortgages with original principal balances above the conforming loan limits for single unit properties for the year being evaluated (rounded to the nearest $1,000) shall be excluded;

(5) All mortgages with rate spreads of 150 basis points or more above the applicable average prime offer rate as reported in the Home Mortgage Disclosure Act data shall be excluded; and

(6) All mortgages that are missing information necessary to determine appropriate counting under the housing goals shall be excluded.

(c) Low-income families housing goal. Each year, the percentage share of each Enterprise's total purchases of purchase money mortgages on owner-occupied single-family housing that consists of mortgages for low-income families shall meet or exceed the share of such mortgages in the market as defined in paragraph (b) of this section.

(d) Very low-income families housing goal. Each year, the percentage share of each Enterprise's total purchases of purchase money mortgages on owner-occupied single-family housing that consists of mortgages for very low-income families shall meet or exceed the share of such mortgages in the market as defined in paragraph (b) of this section.

(e) Low-income areas housing goal. Each year, the percentage share of each Enterprise's total purchases of purchase money mortgages on owner-occupied single-family housing that consists of mortgages for families in low-income areas shall meet or exceed the share of such mortgages in the market as defined in paragraph (b) of this section.

(f) Low-income areas housing subgoal. Each year, the percentage share of each Enterprise's total purchases of purchase money mortgages on owner-occupied single-family housing that consists of mortgages for families in low-income census tracts or for moderate-income families in minority census tracts shall meet or exceed the share of such mortgages in the market as defined in paragraph (b) of this section.

(g) Refinancing housing goal. Each year, the percentage share of each Enterprise's total purchases of refinancing mortgages on owner-occupied single-family housing that consists of refinancing mortgages for low-income families shall meet or exceed the share of such mortgages in the market as defined in paragraph (b) of this section.

5. Revise § 1282.13 to read as follows:

§ 1282.13 Multifamily special affordable housing goal and subgoals.

(a) Multifamily housing goal and subgoals. An Enterprise shall be in compliance with a multifamily housing goal or subgoal if its performance under the housing goal or subgoal meets or exceeds the benchmark level for the goal or subgoal, respectively.

(b) Multifamily low-income housing goal. (1) For the year 2015, the benchmark level for each Enterprise's purchases of mortgages on multifamily residential housing affordable to low-income families shall be, for Fannie Mae, at least 250,000 dwelling units affordable to low-income families in multifamily residential housing financed by mortgages purchased by Fannie Mae, and for Freddie Mac, at least 210,000 such dwelling units.

(2) For the year 2016, the benchmark level for each Enterprise's purchases of mortgages on multifamily residential housing affordable to low-income families shall be, for Fannie Mae, at least 250,000 dwelling units affordable to low-income families in multifamily residential housing financed by mortgages purchased by Fannie Mae, and for Freddie Mac, at least 220,000 such dwelling units.

(3) For the year 2017, the benchmark level for each Enterprise's purchases of mortgages on multifamily residential housing affordable to low-income families shall be, for Fannie Mae, at least 250,000 dwelling units affordable to low-income families in multifamily residential housing financed by mortgages purchased by Fannie Mae, and for Freddie Mac, at least 230,000 such dwelling units.

(c) Multifamily very low-income housing subgoal. (1) For the year 2015, the benchmark level for each Enterprise's purchases of mortgages on multifamily residential housing affordable to very low-income families shall be, for Fannie Mae, at least 60,000 dwelling units affordable to very low-income families in multifamily residential housing financed by mortgages purchased by Fannie Mae, and for Freddie Mac, at least 43,000 such dwelling units.

(2) For the year 2016, the benchmark level for each Enterprise's purchases of mortgages on multifamily residential housing affordable to very low-income families shall be, for Fannie Mae, at least 60,000 dwelling units affordable to very low-income families in multifamily residential housing financed by mortgages purchased by Fannie Mae, and for Freddie Mac, at least 46,000 such dwelling units.

(3) For the year 2017, the benchmark level for each Enterprise’s purchases of mortgages on multifamily residential housing affordable to very low-income families shall be, for Fannie Mae, at least 60,000 dwelling units affordable to very low-income families in multifamily residential housing financed by mortgages purchased by Fannie Mae, and for Freddie Mac, at least 50,000 such dwelling units.

(d) Small multifamily low-income housing subgoal. (1) For the year 2015, the benchmark level for each Enterprise’s purchases of mortgages on small multifamily properties affordable to low-income families shall be, for Fannie Mae, at least 20,000 dwelling units affordable to low-income families in small multifamily properties financed by mortgages purchased by Fannie Mae, and for Freddie Mac, at least 5,000 such dwelling units.

(2) For the year 2016, the benchmark level for each Enterprise’s purchases of mortgages on small multifamily properties affordable to low-income families shall be, for Fannie Mae, at least 25,000 dwelling units affordable to low-income families in small multifamily properties financed by mortgages purchased by Fannie Mae, and for Freddie Mac, at least 10,000 such dwelling units.

(3) For the year 2017, the benchmark level for each Enterprise’s purchases of mortgages on small multifamily properties affordable to low-income families shall be, for Fannie Mae, at least 30,000 dwelling units affordable to low-income families in small multifamily properties financed by mortgages purchased by Fannie Mae, and for Freddie Mac, at least 15,000 such dwelling units.

6. Amend § 1282.15 by revising paragraphs (b), (c), (d), (e) and (g)(2), to read as follows:

§ 1282.15 General counting requirements.

* * * * *

(b) Counting owner-occupied units. (1) Mortgage purchases financing owner-occupied single-family properties shall be evaluated based on the income of the mortgagors and the area median income at the time the mortgage was originated. To determine whether mortgages may be counted under a particular family income level, i.e., low- or very low-income, the income of the mortgagors is compared to the median income for the area at the time the mortgage was originated, using the appropriate percentage factor provided under § 1282.17.

(2) Mortgage purchases financing owner-occupied single-family properties for which the income of the mortgagors is not available shall be included in the denominator for the single-family housing goals and subgoal, but such mortgages shall not be counted in the numerator of any single-family housing goal or subgoal.

(c) Counting dwelling units for multifamily housing goal and subgoals. Performance under the multifamily housing goal and subgoals shall be measured by counting the number of dwelling units that count toward achievement of a particular housing goal or subgoal in all multifamily properties financed by mortgages purchased by an Enterprise in a particular year. Only dwelling units that are financed by mortgage purchases, as defined by FHFA, and that are not specifically excluded as ineligible under §1282.16(b), may be counted for purposes of the multifamily housing goal and subgoals.

(d) Counting rental units.—(1) Use of rent. For purposes of counting rental units toward achievement of the multifamily housing goal and subgoals, mortgage purchases financing such units shall be evaluated based on rent and whether the rent is affordable to the income group targeted by the housing goal and subgoals. A rent is affordable if the rent does not exceed the maximum levels as provided in § 1282.19.

(2) Affordability of rents based on subsidy program requirements. Where a multifamily property is subject to an affordability restriction under a housing subsidy program that establishes the maximum permitted income level for a tenant or a prospective tenant or the maximum permitted rent, the affordability of units in the property may be determined based on the maximum permitted income level or maximum permitted rent established under such housing program for those units. This income level shall be compared to the median income for the area, adjusted for family size as provided in § 1282.17, or as provided in § 1282.18 if family size is not known.

(3) Unoccupied units. Anticipated rent for unoccupied units may be the market rent for similar units in the neighborhood as determined by the lender or appraiser for underwriting purposes. A unit in a multifamily property that is unoccupied because it is being used as a model unit or rental office may be counted for purposes of the multifamily housing goal and subgoals only if an Enterprise determines that the number of such units is reasonable and minimal considering the size of the multifamily property.

(4) Timeliness of information. In evaluating affordability under the multifamily housing goal and subgoals, each Enterprise shall use tenant and rental information as of the time of mortgage acquisition.

(e) Missing data or information for multifamily housing goal and subgoals. (1) Rental units for which bedroom data are missing shall be considered efficiencies for purposes of calculating unit affordability.

(2) When an Enterprise lacks sufficient information to determine whether a rental unit in a property securing a multifamily mortgage purchased by an Enterprise counts toward achievement of the multifamily housing goal or subgoals because rental data is not available, an Enterprise's performance with respect to such unit may be evaluated using estimated affordability information by multiplying the number of rental units with missing affordability information in properties securing multifamily mortgages purchased by the Enterprise in each census tract by the percentage of all rental dwelling units in the respective tracts that would count toward achievement of each goal and subgoal, as determined by FHFA based on the most recent decennial census.

(3) The estimation methodology in paragraph (e)(2) of this section may be used up to a nationwide maximum of 5 percent of the total number of rental units in properties securing multifamily mortgages purchased by the Enterprise in the current year. Multifamily rental units in excess of this maximum, and any units for which estimation information is not available, shall not be counted for purposes of the multifamily housing goal and subgoals.

* * * * *

(g) * * *

(2) When an Enterprise cannot precisely determine whether a mortgage is on dwelling unit(s) located in one area, the Enterprise shall determine the median income for the split area in the manner prescribed by the Federal Financial Institutions Examination Council for reporting under the Home Mortgage Disclosure Act (12 U.S.C. 2801 et seq.), if the Enterprise can determine that the mortgage is on dwelling unit(s) located in:

(i) A census tract; or

(ii) A census place code.

* * * * *

7. Amend § 1282.16 as follows:

a. Remove the second “and” from paragraph (b)(14);

b. Revise paragraph (b)(15) and add new paragraph (b)(16);

c. Revise paragraph (c)(5) and add new paragraph (c)(15);

d. Revise paragraph (d); and

e. Revise paragraph (e).

The revisions and additions read as follows:

§ 1282.16 Special counting requirements.

* * * * *

(b) * * *

(15) Skilled nursing units; and

(16) Any combination of factors in paragraphs (b)(1) through (b)(15) of this section.

(c) * * *

(5) <u>Cooperative housing and condominiums</u>. (i) The purchase of a mortgage on a cooperative housing unit (“a share loan”) or a mortgage on a condominium unit shall be treated as a mortgage purchase for purposes of the housing goals. Such a purchase shall be counted in the same manner as a mortgage purchase of single-family owner-occupied units.

(ii) The purchase of a mortgage on a cooperative building or a mortgage on a condominium project shall be treated as a mortgage purchase for purposes of the housing goals. The purchase of a mortgage on a cooperative building shall be counted in the same manner as a mortgage purchase of a multifamily rental property, except that affordability must be determined based solely on the comparable market rents used in underwriting the blanket loan. If the underwriting rents are not available, the loan shall not be treated as a mortgage purchase for purposes of the housing goals. The purchase of a mortgage on a condominium project shall be counted in the same manner as a mortgage purchase of a multifamily rental property.

(iii) Where an Enterprise purchases both a mortgage on a cooperative building and share loans for units in the same building, both the mortgage on the cooperative building and the share loans shall be treated as mortgage purchases for purposes of the housing goals. Where an Enterprise purchases both a mortgage on a condominium project and mortgages on individual dwelling units in the same project, both the mortgage on the condominium project and the mortgages on individual dwelling units shall be treated as mortgage purchases for purposes of the housing goals.

* * * * *

(15) Seniors housing units. The purchase of a mortgage on seniors housing units where life or health care services are included in the rent shall be treated as a mortgage purchase for purposes of the housing goals, unless prospective residents are required to pay an entrance fee (other than application processing fees, first-month advanced rent payments, or security deposit fees), in addition to any monthly rent or service fee. Seniors housing units that do not include additional services in the rent shall be treated as multifamily dwelling units for purposes of the housing goals. Seniors housing units that

include additional services in the rent shall be treated as multifamily dwelling units with missing data for purposes of determining affordability.

(d) HOEPA mortgages. HOEPA mortgages shall be treated as mortgage purchases for purposes of the housing goals and shall be included in the denominator for each applicable single-family housing goal, but such mortgages shall not be counted in the numerator for any housing goal.

(e) FHFA review of transactions. FHFA may determine whether and how any transaction or class of transactions shall be counted for purposes of the housing goals, including treatment of missing data. FHFA will notify each Enterprise in writing of any determination regarding the treatment of any transaction or class of transactions under the housing goals. FHFA will make any such determinations available to the public on FHFA's website, www.fhfa.gov.

8. Amend § 1282.17 by replacing the phrase "rental housing" with "rental units".

9. Amend § 1282.20 by revising paragraph (b) to read as follows:

§ 1282.20 Determination of compliance with housing goals; notice of determination.

* * * * *

(b) Multifamily housing goal and subgoals. The Director shall evaluate each Enterprise's performance under the multifamily low-income housing goal, the multifamily very low-income housing subgoal, and the small multifamily low-income housing subgoal, on an annual basis. If the Director determines that an Enterprise has failed, or there is a substantial probability that an Enterprise will fail, to meet a multifamily housing goal or subgoal established by this subpart, the Director shall notify the Enterprise in writing of such preliminary determination.

* * * * *

Note: The following Appendix will not appear in the Code of Federal Regulations.

APPENDIX: ADDITIONAL DISCUSSION CONCERNING THE PROPOSED SINGLE-FAMILY HOUSING GOALS

This Appendix provides additional discussion concerning FHFA's proposed benchmark levels for the single-family goals and subgoals. FHFA uses market models, which incorporate economic and housing data variables, to predict market performance for each goal and subgoal. FHFA's consideration of the required statutory factors when setting the proposed benchmark levels includes the estimates from these models and the Enterprises' past performance. The first section in this Appendix examines the factors considered as part of FHFA's market model. The second section discusses additional factors considered in FHFA's review. The third and final section discusses the performance of the Enterprises against the single-family goals and FHFA's estimates of market performance for the years 2010 through 2013.

I. Factors Considered in FHFA's Market Models

FHFA uses a market model to project the future market size for each of the goals and subgoals for each year from 2015 through 2017. These projections are referred to as the "estimated market performance." A full discussion of these estimates is included in the supporting document: The Size of the Affordable Mortgage Market: 2015-2017 Enterprise Single-Family Housing Goals.[49]

"Market size" is one of the seven statutory factors considered by FHFA in setting the single-family housing goals. In addition to market size, the market model also incorporates FHFA's consideration of three more of the seven statutory factors: national

[49] For more information (specifically which economic indicators each entity forecasts), see "The Size of the Affordable Mortgage Market: 2015-2017 Enterprise Single-Family Housing Goals," published at FHFA's website, http://www.fhfa.gov/PolicyProgramsResearch/Research.

housing needs; economic, housing, and demographic conditions; and other reliable mortgage data. FHFA uses a variety of data sources to obtain current data and future forecasts on the key variables used in the market model. These sources include: the American Housing Survey (AHS); U.S. Census Bureau demographics; commercial sources such as Moody's and other industry and trade research sources, such as the Mortgage Bankers Association (MBA), Inside Mortgage Finance Publications, National Association of Realtors (NAR), National Association of Home Builders (NAHB), and the Commercial Mortgage Securities Association. The FHFA Monthly Interest Rate Survey (MIRS) is used to complement forecast models for home purchase loan originations by making intra-annual adjustments prior to the public release of Home Mortgage Disclosure Act (HMDA) mortgage data. FHFA also uses data and information from Wells Fargo, PNC Bank, Fannie Mae, Freddie Mac, and The Wall Street Journal Survey, as well as market and economic data from the Bureau of Labor Statistics, the Federal Reserve Board, the Department of Commerce Bureau of Economic Analysis, and FedStats.

Each of the variables used in the market models is discussed in more detail below.

Unemployment rate. The unemployment rate is included in the market models for estimating market size for the low-income home purchase goal, the very low-income home purchase goal, and the low-income areas home purchase subgoal. Unemployment rates and the ability of borrowers to find and maintain jobs are key factors in the decision of buyers to purchase homes, as well as in the decisions of financial institutions to lend, since employment impacts income levels, debt levels, and credit scores. The unemployment rate has steadily fallen from 9.1 percent in August 2011 to 6.1 percent in

June 2014. The unemployment rate is expected to fall to an average of 5.9 percent in 2015, 5.6 percent in 2016, and 5.7 percent in 2017. Nevertheless, the labor force participation rate has declined from 66.1 percent in June 2004 to 64 percent in June 2011 and 63.5 percent in June 2013.[50] It remains at 62.8 percent for the third consecutive month as of June 2014,[51] significantly lower than the labor force participation rate in June 2004 (66.1 percent).

Home sales. Home sales are included in the market models for estimating market size for the low-income home purchase goal. For a given level of market demand for housing, when there are more homes for sale, potential home buyers have more options, houses are priced more competitively, and the search costs to find affordable housing decrease. Historical volumes for sales of both new and existing houses are shown in **Table 5** along with forecasts for 2014-2017. For 2013, NAR reported that existing single-family home sales were 4.48 million, up by 8.6 percent from 2012. Although existing home sales increased by 2.6 percent in June 2014, the sales pace is still 2.3 percent lower than in June 2013.[52] New home sales for 2013, as reported by the Department of Housing and Urban Development (HUD) and the U.S. Census Bureau, were 429,000, up by 16.6 percent from 2012. Nevertheless, new home sales fell 3.2 percent in the first quarter of 2014 relative to the prior quarter. New home sales in June

[50] Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey" (Series ID: LNS 11300000).
[51] Bureau of Labor Statistics, News Release, "The Employment Situation – June 2014" (July 3, 2014).
[52] National Association of Realtors, News Release, "Existing Home Sales Up in June" (July 22, 2014).

2014 fell 8.1 percent from the previous month and were 11.5 percent below new home sales in June 2013.[53]

Interest rates and mortgage interest rates. Interest rates and mortgage interest rates are included in the market models for estimating market size for the low-income home purchase goal and the low-income refinancing goal. Affordability in the mortgage market depends in part on the interest rate environment. Mortgage interest rates are affected by many factors. Trends in interest rates on longer term financial instruments, such as mortgages, typically follow the fluctuations of the 10-Year Treasury note yield, with approximately a 165 to 170 basis point (i.e., 1.65 percent to 1.70 percent) interest rate spread between the 30-year mortgage rate and the 10-Year Treasury note yield, reflecting the differences in liquidity and credit risk expected for the 2015 through 2017 period. This is similar to the past five years, but lower than the 181 basis point average spread during 2005 through 2008.

Mortgage interest rates are included in the market models for estimating market size for the low-income home purchase goal and the low-income refinancing goal. The longer-term 30-year fixed-rate mortgage interest rate, after falling to a low of 3.4 percent in the fourth quarter of 2012, has gradually risen to 4.2 percent in the second quarter of 2014.[54] Shorter term fixed- and adjustable-rate mortgage interest rates remain at historical lows. Freddie Mac reported that the one-year adjustable-rate mortgage rate averaged 2.4 percent in the second quarter of 2014.[55] As the economic recovery

[53] U.S. Census Bureau News (Joint Release with U.S. Department of Housing and Urban Development), "New Residential Sales in June 2014" (July 24, 2014); HUD PD&R "National Housing Market Summary," First Quarter 2014 (May 2014).
[54] Freddie Mac, "Primary Mortgage Market Survey" (2012-2014); Freddie Mac, "U.S. Economic and Housing Market Outlook" (July 2014).
[55] Freddie Mac, "Primary Mortgage Market Survey" (July 3, 2014).

continues, it is expected that interest rates, particularly longer term interest rates, will rise. For the 2015-2017 period, as shown in **Table 5**, forecasts show that all interest rates are expected to increase, including the interest rate on a 30-year fixed-rate mortgage, which is expected to increase to 4.9 percent by 2015 and 5.4 percent by 2016.

Inflation rate. The inflation rate is included in the market models for estimating market size for the very low-income home purchase goal. The monthly Consumer Price Index, excluding food and energy (Core CPI), has risen at an average year-over-year rate of 1.9 percent in 2012, 1.7 percent in 2013 and 1.8 percent in the first half of 2014. The increase in the Core CPI is expected to remain at or below 2.0 percent through 2017.[56]

Affordability index. The NAR Housing Affordability Index is included in the market models for estimating market size for the low-income areas home purchase subgoal. Affordability is interrelated with other factors in the models, such as home prices and mortgage rates.

NAR's composite index of housing affordability for December 2013 showed that families earning the median income had 168.4 percent of the income needed to purchase a median-priced existing single-family home, which is lower than the peak annual level of 196.5 percent reached in 2012, but still very high by historical standards.[57] The housing affordability index rose in the first quarter of 2014, but subsequently fell to 159.3 percent for May 2014. Zillow research has indicated that the share of income needed to afford the mortgage payments on a median-priced home has risen from a low of under 13 percent at the end of 2012 to 15.1 percent in the fourth quarter of 2013.

---

[56] Bureau of Labor Statistics, News Release—Consumer Price Index, June, 2014 (July 22, 2014).
[57] See National Association of Realtors, "Housing Affordability Index," http://www.realtor.org/research/research/housinginx.

The impact of rising mortgage rates, as well as higher home prices, could impact borrowers in lower income brackets to a greater degree than borrowers in higher income brackets due to the higher payments needed with rising house prices and higher mortgage interest rates. This, in turn, could lead to fewer borrowers in lower income brackets relative to the number of borrowers in higher income brackets.

While few recent studies have examined the impact of house price changes on affordability for borrowers by income bracket, a recent study examined the impact of mortgage interest rate increases on housing affordability. The study found that various metropolitan statistical areas (MSAs) have significant differences in affordability and that, using DTI (debt-to-income ratios) and LTV (loan-to-value ratios) to measure affordability, in 19 of the 37 largest MSAs the median house price was above the maximum affordable price as of August 2013. If mortgage rates rose to 6 percent, only 4 of the 37 would be affordable.[58]

Median house prices. Median house prices are included in the market models for estimating market size for the low-income home purchase goal, and the FHFA House Price Index is included in the market models for estimating market size for the very low-income home purchase goal. In periods of house price appreciation, home sales and mortgage originations increase as the expected return on investment rises. In periods of price depreciation or price uncertainty, home sales and mortgage originations decrease as risk-averse homebuyers are reluctant to enter the market. House prices generally fell during 2009 through 2011, but turned around in 2012 with an increase of 5.6 percent in FHFA's Purchase Only House Price Index. In 2013, home prices increased at a rate of

[58] Lan Shi and Laurie Goodman. "The Impact of Mortgage Rate Increases on Housing Affordability," Urban Institute, Housing Finance Policy Center (November, 2013).

7.6 percent. House prices are expected to continue to increase through 2017 (see **Table 5**), although price gains may be slowing. Indeed, although the FHFA House Price Index in the first quarter of 2014 rose 1.3 percent and had risen for 11 consecutive quarters, it rose by less than the 1.9 percent increase in the first quarter of 2013. The FHFA House Price Index rose 0.5 percent in May 2014 relative to the prior month and was up 5.5 percent from the previous year.[59] Similarly, the median sales price of existing homes in June 2014 was up 4.3 percent from the prior year.[60]

[59] FHFA News Release, "U.S. House Prices Up 0.4% in May" (July 22, 2014).
[60] National Association of Realtors, News Release, "Existing Home Sales Up in June" (July 22, 2014).

Table 5
Economic, Housing and Mortgage Market Outlook

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Inflation Rate (CPI, Y/Y % Change)	1.6%	1.4%	1.3%	3.3%	1.9%	1.2%	1.2%	1.4%	2.1%	2.1%
Core Infl. Rate (CPI, Y/Y % Change)	2.0%	1.7%	0.7%	2.2%	1.9%	1.7%	1.7%	1.6%	1.9%	2.0%
Core Infl. Rate (PCE, Y/Y % Change)	1.6%	1.4%	1.0%	1.8%	1.7%	1.2%	1.2%	1.1%	1.3%	n.a.
Unemployment Rate	5.8%	9.3%	9.6%	8.9%	8.1%	7.3%	6.3%	5.8%	5.5%	5.6%
10-Year Treasury Yield	3.7%	3.3%	3.2%	2.8%	1.8%	2.4%	2.8%	3.4%	4.0%	4.2%
1-Year Treasury Yield	1.8%	0.5%	0.3%	0.2%	0.2%	0.1%	0.1%	0.4%	1.8%	n.a.
Prime Rate	5.1%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.5%	4.9%	5.9%
Federal Funds Target Rate	1.93%	0.16%	0.18%	0.10%	0.14%	0.11%	0.12%	0.53%	1.80%	n.a.
Housing Starts [1]	899	554	585	612	784	930	1,023	1,250	1,305	1,069
Housing Starts, 1-Unit [1]	616	443	471	435	537	621	666	889	1,155	n.a.
Total Home Sales [2]	4,588	4,710	4,502	4,586	5,030	5,505	5,336	5,747	5,401	4,834
New Home Sales [1]	482	374	321	307	368	430	462	576	618	518
Existing Home Sales [1]	4,106	4,336	4,181	4,279	4,662	5,074	4,874	5,171	4,783	4,316
Single-Family Originations [3]	$1,500	$1,815	$1,698	$1,262	$1,750	$1,755	$1,093	$1,104	$924	$950
Refinance Mortgage Share [4]	50%	64%	63%	68%	69%	61%	39%	27%	18%	13%
FHA Home Purchase Market Share [5]	25%	36%	35%	30%	26%	24%	20%	20%	n.a.	n.a.
ARM Market Share	7%	4%	5%	5%	5%	7%	11%	14%	n.a.	n.a.
Investor Share	13.4%	10.8%	11.7%	13.2%	13.2%	12.8%	11.0%	10.6%	10.4%	10.6%
30-Year Mortgage Fixed Rate [6]	6.0%	5.0%	4.7%	4.5%	3.7%	4.0%	4.3%	4.9%	5.4%	4.2%
5/1 ARM Rate [6]	5.7%	4.8%	3.8%	3.3%	2.8%	2.9%	3.2%	3.8%	n.a.	n.a.
1-Year ARM Rate [6]	5.2%	4.7%	3.8%	3.0%	2.7%	2.6%	2.5%	2.9%	4.2%	n.a.
Change in Housing Prices (FHFA ALL) [7]	-6.4%	-4.7%	-1.6%	-2.9%	-0.7%	4.9%	8.5%	6.7%	n.a.	n.a.
Change in Housing Prices (FHFA PO) [8]	-9.9%	-1.9%	-3.9%	-2.2%	5.6%	7.7%	6.5%	3.4%	2.3%	1.9%
Change in Housing Prices (CS HPI) [9]	-19.2%	-4.5%	-0.6%	-3.8%	4.6%	13.7%	4.7%	2.9%	3.2%	n.a.
Housing Affordability Index [10]	153	171	177	196	200	166	144	111	107	115
Median Sales Price - New Homes [11]	$230	$215	$221	$224	$242	$265	$277	$287	n.a.	n.a.
Median Sales Price - Existing Homes [11]	$197	$173	$172	$165	$175	$196	$205	$211	$211	$215

Note: Shaded area indicates historical values. Forecasts are an average forecast of Mortgage Bankers Association (MBA), Fannie Mae, Freddie Mac, National Association of Realtors, Wells Fargo, PNC Financial, the National Association of Home Builders, Standard and Poor's, the Wall Street Journal Survey, the Conference Board and the Federal Open Market Committee.

1 Thousands of units

2 Thousands of units, forecasted amount does not equal the sum of the existing plus new home sales because of differences in forecasts.

3 MBA, Billions of dollars

4 The refinance shares for 2008-2012 are calculated from Home Mortgage Disclosure Act (HMDA) data. The refinance share for 2013 is what is reported by MBA.

5 The FHA market shares for 2008-2012 are calculated from HMDA data. Preliminary estimates for 2013 are calculated from new home sales data (Census Bureau), scaled to match the 2008-2012 FHA market share.

6 Freddie Mac, Primary Mortgage Market Survey

7 FHFA House Price Index, all transactions (Q4/Q4 % Change)

8 FHFA House Price Index, purchase transactions only (Q4/Q4 % Change)

9 Standard & Poor's Case-Shiller 10 City Index (Q4/Q4 % Change)

10 National Association of Realtors

11 Thousands of dollars

n.a. Not available at this time.

Refinance rate. The refinance rate is included in the market models for estimating market size for the low-income refinancing goal. The size of the entire refinance mortgage market has an impact on the share of affordable refinance mortgages (defined as refinance mortgages for borrowers making 80 percent or less of area median income) and thus on the development of the benchmark for the Enterprises for the low-income refinancing goal. Refinance mortgage volume has historically increased when the refinancing of mortgages is motivated by low interest rates, i.e., "rate-and-term refinances," and this increased volume is typically dominated by higher-income borrowers. Consequently, in periods of low interest rates, the share of lower-income borrowers often decreases. Because interest rates and mortgage rates are currently increasing after an extended period of low rates, the low-income share of borrowers who are refinancing increases.[61]

II. Additional Factors Considered

FHFA has also considered other variables that indirectly impact the variables in the market model. For example, homeowner vacancy rates impact the supply of homes, which, in turn, impacts home prices. Home prices are key in several of the market models for various goals and subgoals. The homeowner vacancy rate—the proportion of housing inventory for homeowners that is vacant and for sale—was 1.7 percent in 2004, but increased thereafter, to 2.8 percent in 2008. This rate has declined to 2.0 percent in

[61] The Home Affordable Refinance Program (HARP), which became effective in March 2009 and was expanded in 2011, is an effort to enhance the opportunity for many homeowners to refinance. Homeowners with loan-to-value ratios above 80 percent whose mortgages are owned or guaranteed by Fannie Mae or Freddie Mac and who are current on their mortgages have the opportunity to reduce their monthly mortgage payments to take advantage of historically low mortgage interest rates.

2012 and 2013, but is still somewhat elevated.[62] The housing supply may also be impacted by the inventory of distressed and at-risk homes that have not yet completed the foreclosure process, and so may not be reflected in the vacancy rate.

Foreclosure filings and negative equity indirectly impact other variables in the market model, such as house prices. Although the number of homes with foreclosure filings fell 34 percent relative to the peak level of 2.87 million in 2010, 1.89 million homes were foreclosed on in 2011.[63] Foreclosure filings have fallen since 2011, to 1.84 million in 2012 and 1.36 million in 2013, but they still remain high by historical standards.[64] FHFA has estimated that in 2011, less than 10 percent of borrowers with Enterprise loans had negative equity in their homes (9.9 percent in June 2011), whereas loans backing private label securities were more than three times more likely to have negative equity (35.5 percent in June 2011).[65] The figures were lower for December 2013 (7.2 percent for Fannie Mae and 10 percent for Freddie Mac), which were both below CoreLogic's figure for all mortgaged homes, estimated at 13.3 percent in the fourth quarter of 2013. Since the latter figure includes homes with mortgages backed by the Enterprises, the negative equity share was much higher for non-Enterprise loans.

House prices and other variables in the market model may also be indirectly affected by changes in underwriting standards. According to the Board of Governors of

---

[62] Federal Reserve Bank of St. Louis, "Home Vacancy Rate for the United States," http://research.stlouisfed.org/fred2/series/USHVAC.
[63] See "2011 Year-End Foreclosure Report: Foreclosures on the Retreat" (January 9, 2012), http://www.realtytrac.com/content/foreclosure-market-report/2011-year-end-foreclosure-market-report-6984.
[64] See "1.4 Million U.S. Properties with Foreclosure Filings in 2013 Down 26 Percent to Lowest Annual Total Since 2007" (January 13, 2014), http://www.realtytrac.com/content/foreclosure -market-report/2013-year-end-foreclosure-market-report-7963.
[65] See http://www.fhfa.gov/Media/PublicAffairs/Documents/Letter-To-Congress-Principal-Forgiveness_12312.pdf.

the Federal Reserve System's Senior Loan Officer Opinion Survey, many surveyed lenders reported tightening underwriting standards between 2007 and 2009. As of the January 2014 survey, lenders had not reported easing underwriting standards in significant numbers.[66] Stricter and less flexible underwriting standards are likely to affect overall mortgage origination volumes, and are likely to have a significant impact on low-income and very low-income borrowers.

Demographic characteristics are considered by FHFA, although they are not directly included in the market models. Assessment of demographic conditions is helpful in understanding trends in the performance of the Enterprises in the single-family and multifamily goals, as well as in understanding the trends in house prices and sales in particular geographic areas. The share of minority households has grown relative to white households between 1993 and 2013.[67] The Harvard University Joint Center for Housing Studies has provided household projections for various demographic groups and age groups from 2015-2035 which suggest significant estimated growth in Hispanic households, followed by Asian households. Their middle projections for households suggest that Hispanic households will grow from 16.4 million in 2015 to 27 million in 2035, while Asian and other households will grow from 8.3 million households in 2015 to 12.9 million households in 2035. Black households are projected to expand from 15.7 million households in 2015 to 19.9 million households in 2035. White households are

---

[66] See Board of Governors of the Federal Reserve System, "January 2014 Senior Loan Officer Opinion Survey" (Feb. 3, 2014), http://www.federalreserve.gov/boarddocs/snloansurvey/201402/fullreport.pdf.
[67] Joint Center for Housing Studies, Harvard University, "The State of the Nation's Housing: 2014," p. 18.

forecast to grow most slowly, expanding from 84.8 million in 2015 to 88.2 million in 2035.[68]

While overall homeownership rates have declined by 0.3 percentage points in 2012-2013, dropping to 65.1 percent, declines have been greater for minority families, with a 4 percentage point decline from the peaks for Asian and other households and Hispanic households and a 6 percentage point decline from the peak for black households. The gap between the homeownership rates for white and black households has expanded from 25.9 percentage points in 2001 to 29.5 percentage points in 2013.[69] The denial rate for conventional loan applications in the demographic category for white households was 11.6 percent in 2012, which was significantly lower than the denial rates in the respective demographic categories for black (32 percent), Hispanic (20.5 percent), and Asian (14.5 percent) households.[70]

III. The Performance and Effort of the Enterprises toward Achieving the Single-Family Housing Goals in Previous Years and Future Market Estimates

This portion of the Appendix is divided into two sections. The first section discusses the performance, benchmark levels, and single-family goals and subgoal for the Enterprises for 2010-2013. The second section discusses FHFA's estimates of market performance.

<u>A. Enterprise Benchmark Levels and Performance: 2010-2013</u>

---

[68] Daniel McCue, "Baseline Household Projections for the Next Decade and Beyond," Harvard University Joint Center for Housing Studies, Table A-1b, p. 30 (March, 2014).
[69] Joint Center for Housing Studies, Harvard University, "The State of the Nation's Housing: 2014," p. 17.
[70] Neil Bhutta and Glenn B. Canner, "Mortgage Market Conditions and Borrower Outcomes: Evidence from the 2012 HMDA Data and Matched HMDA-Credit Record Data," Federal Reserve Bulletin, Vol. 99, No. 4, Table 13A, p. 29 (November 2013).

The figures shown in **Tables 6-9** for 2010-2012 are official performance results as determined by FHFA, based on analysis of loan-level information submitted by the Enterprises. The figures shown for 2013 are performance numbers as reported by the Enterprises to FHFA in March 2014. Official performance results for 2013 will be determined and reported by FHFA later in 2014, after release of the 2013 HMDA data in September.

The Safety and Soundness Act requires FHFA to consider the percentage of goal-qualifying mortgages under each housing goal, as calculated based on HMDA data for the three most recent years for which data are available.[71] FHFA has incorporated these measurements in the goals themselves, through the retrospective market levels. The HMDA performance numbers are given in the tables below for each of the single-family housing goals.

<u>Low-income home purchase goal</u>. The low-income home purchase goal applies to mortgages made to "low-income families," defined as families with incomes no greater than 80 percent of area median income. As indicated in **Table 6**, the benchmark level for this goal was 27 percent for both 2010 and 2011, but both Enterprises' performance fell short of this level in both years. Both Enterprises' performance on this goal also lagged that of the primary mortgage market in both 2010 and 2011 (27.2 percent and 26.5 percent, respectively). This market share figure is included in the last column in **Table 6**, which reflects the low-income share of all conventional conforming home purchase mortgages originated in the primary mortgage market for the corresponding year, based on FHFA's analysis of HMDA data.

[71] 12 U.S.C. 4562(e)(2)(A).

The low-income home purchase benchmark level was lowered from 27 percent for 2010-2011 to 23 percent for 2012-2014. As indicated in **Table 6**, both Enterprises' performance exceeded this level for 2012. Fannie Mae's reported performance of 23.8 percent exceeded this benchmark level for 2013, while Freddie Mac's reported performance of 21.8 percent for 2013 fell short of the benchmark level. Later in 2014, FHFA will determine the Enterprises' official performance figures for 2013 and the low-income share of the primary home purchase mortgage market for 2013, based on 2013 HMDA data.

Fannie Mae's performance on this goal was essentially unchanged between 2010 and 2012, before falling in 2013. Freddie Mac's performance was more uneven, falling in 2011, rising in 2012, and falling again in 2013.

Table 6
Enterprise Past Performance on the Low-Income Home Purchase Goal, 2006-13

Year	Type of Home Purchase (HP) Mortgages	Benchmark	Performance: Fannie Mae	Performance: Freddie Mac	Market Share (HMDA)
2013	Low-Income HP Mortgages		193,660	93,425	
	Total HP Mortgages		814,066	429,086	
	Low-Inc. % of HP Mortgages	23%	23.8%	21.8%	NA
2012	Low-Income HP Mortgages		162,486	70,393	
	Total HP Mortgages		633,627	288,007	
	Low-Inc. % of HP Mortgages	23%	25.6%	24.4%	26.6%
2011	Low-Income HP Mortgages		120,597	60,682	
	Total HP Mortgages		467,066	260,796	
	Low-Inc. % of HP Mortgages	27%	25.8%	23.3%	26.5%
2010	Low-Income HP Mortgages		120,430	82,443	
	Total HP Mortgages		479,200	307,555	
	Low-Inc. % of HP Mortgages	27%	25.1%	26.8%	27.2%
2009	Low-Income HP Mortgages		148,423	105,719	
	Total HP Mortgages		582,673	415,897	
	Low-Inc. % of HP Mortgages	NA	25.5%	25.4%	29.6%
2008	Low-Income HP Mortgages		226,290	158,896	
	Total HP Mortgages		977,852	655,156	
	Low-Inc. % of HP Mortgages	NA	23.1%	24.3%	25.5%
2007	Low-Income HP Mortgages		383,129	248,434	
	Total HP Mortgages		1,471,242	1,008,064	
	Low-Inc. % of HP Mortgages	NA	26.0%	24.6%	26.1%
2006	Low-Income HP Mortgages		359,609	197,900	
	Total HP Mortgages		1,295,956	895,049	
	Low-Inc. % of HP Mortgages	NA	27.7%	22.1%	24.2%

Source: Performance as reported by the Enterprises for 2013; official performance as determined by FHFA for 2010-12; performance as if the goal had been in effect, as calculated by FHFA, for 2006-09.
"Low-income" refers to borrowers with incomes no greater than 80 percent of Area Median Income (AMI).

Note: An Enterprise passes a goal if (1) its performance matches or exceeds the pre-set benchmark level, or (2) if its performance falls short of the benchmark level but equals or exceeds the corresponding share of conventional conforming mortgages originated in the primary mortgage market, as determined by FHFA's analysis of Home Mortgage Disclosure Act (HMDA) data for the year, shown in the last column.

Very low-income home purchase goal. The very low-income home purchase goal applies to mortgages made to "very low-income families," defined as families with incomes no greater than 50 percent of area median income.

The very low-income home purchase goal was lowered from 8 percent for 2010-2011 to 7 percent for 2012-2014. As shown in **Table 7**, both Enterprises' performance exceeded this level for 2012 with Fannie Mae's performance of 7.3 percent and Freddie Mac's performance of 7.1 percent. However, both Enterprises fell short of the benchmark level for 2013, when Fannie Mae's reported performance was 6.0 percent and Freddie Mac's reported performance was 5.5 percent. Later in 2014, FHFA will determine the Enterprises' official performance figures for 2013 and the very low-income share of the primary home purchase mortgage market for 2013, based on 2013 HMDA data.

While the recovery in the home purchase market between 2012 and 2013 resulted in significantly higher volumes of home purchase mortgages at the Enterprises, the volume of very low-income home purchase mortgages did not increase by nearly as much. Between 2012 and 2013, the volume of Fannie Mae's purchases of very low-income home purchase mortgages increased by 5 percent, while its overall volume of home purchase mortgages increased by 28 percent. As a result, Fannie Mae's goal performance fell from 7.3 percent in 2012 to 6.0 percent in 2013. Similarly, the volume of Freddie Mac's purchases of very low-income home purchase mortgages increased by 16 percent, while its overall volume of home purchase mortgages increased by 49 percent. As a result, Freddie Mac's goal performance fell from 7.1 percent in 2012 to 5.5 percent in 2013.

Table 7
Enterprise Past Performance on the Very Low-Income Home Purchase Goal, 2006-13

Year	Type of Home Purchase (HP) Mortgages	Benchmark	Enterprise: Fannie Mae	Enterprise: Freddie Mac	Market Share (HMDA)
2013	Very Low-Income HP Mortgages		48,810	23,705	
	Total HP Mortgages		814,066	429,086	
	Very Low-Inc. % of HP Mortgages	7%	6.0%	5.5%	NA
2012	Very Low-Income HP Mortgages		46,519	20,469	
	Total HP Mortgages		633,627	288,007	
	Very Low-Inc. % of HP Mortgages	7%	7.3%	7.1%	7.7%
2011	Very Low-Income HP Mortgages		35,443	17,303	
	Total HP Mortgages		467,066	260,796	
	Very Low-Inc. % of HP Mortgages	8%	7.6%	6.6%	8.0%
2010	Very Low-Income HP Mortgages		34,673	24,276	
	Total HP Mortgages		479,200	307,555	
	Very Low-Inc. % of HP Mortgages	8%	7.2%	7.9%	8.1%
2009	Very Low-Income HP Mortgages		42,571	29,870	
	Total HP Mortgages		582,673	415,897	
	Very Low-Inc. % of HP Mortgages	NA	7.3%	7.2%	8.8%
2008	Very Low-Income HP Mortgages		54,263	40,009	
	Total HP Mortgages		977,852	655,156	
	Very Low-Inc. % of HP Mortgages	NA	5.5%	6.1%	6.5%
2007	Very Low-Income HP Mortgages		93,543	60,549	
	Total HP Mortgages		1,471,242	1,008,064	
	Very Low-Inc. % of HP Mortgages	NA	6.4%	6.0%	6.2%
2006	Very Low-Income HP Mortgages		100,148	47,008	
	Total HP Mortgages		1,295,986	895,049	
	Very Low-Inc. % of HP Mortgages	NA	7.7%	5.3%	5.9%

Source: Performance as reported by the Enterprises for 2013; official performance as determined by FHFA for 2010-12; perfromance if the goal had been in effect, as calculated by FHFA, for 2006-09. "Very Low-income" refers to borrowers with incomes no greater than 50 percent of Area Median Income (AMI).

Note: An Enterprise passes a goal if (1) its performance matches or exceeds the pre-set benchmark level, or (2) if its performance falls short of the benchmark level but equals or exceeds the corresponding share of conventional conforming mortgages originated in the primary mortgage market, as determined by FHFA's analysis of Home Mortgage Disclosure Act (HMDA) data for the year, shown in the last column.

Low-income areas home purchase goal and subgoal. Three categories of mortgages, listed below, qualify for the low-income areas housing goal. The current rule also has a low-income areas home purchase subgoal, which includes only categories (1) and (2) below:

1. Home purchase mortgages for families in low-income census tracts, defined as tracts with median family income no greater than 80 percent of area median income;
2. Home purchase mortgages for families with incomes no greater than 100 percent of area median income who reside in minority census tracts, defined as tracts with minority population of at least 30 percent and a median family income less than 100 percent of area median income; and
3. Home purchase mortgages for families with incomes no greater than 100 percent of area median income who reside in Federally-declared disaster areas (regardless of the minority share of the population in the tract or the ratio of tract median family income to area median income).

The Enterprise performance for this subgoal is addressed below, followed by the performance for the overall goal.

<u>Low-income areas home purchase subgoal</u>. As shown in **Table 8**, the benchmark level for this subgoal (categories (1) and (2)) was established at 13 percent of all home purchases mortgages acquired in 2010 and 2011. Both Enterprises' performance fell short of the benchmark level in each year. However, as shown in **Table 8**, Fannie Mae's performance in 2010 (12.4 percent) exceeded the corresponding market share (12.1 percent), and its performance in 2011 (11.6 percent) exceeded the corresponding market share (11.4 percent). Freddie Mac's performance in both 2010 (10.4 percent) and 2011

(9.2 percent) fell short of both the 2010 and 2011 benchmark levels and the corresponding market shares.

Based on 2012 projections from FHFA's market estimation model, FHFA lowered the subgoal benchmark level from 13 percent for 2010-2011 to 11 percent for 2012-2014. Both Enterprises' official performance exceeded the subgoal benchmark level in 2012 (with Fannie Mae at 13.1 percent and Freddie Mac at 11.4 percent), and based on the performance numbers reported by the Enterprises, this was also the case for 2013 (with Fannie Mae at 14.0 percent and Freddie Mac at 12.3 percent).

Low-income areas home purchase goal. The low-income areas home purchase goal includes all three categories listed above: families in low-income census tracts, moderate-income families in minority census tracts, and moderate-income families in designated disaster areas. Designated disaster areas include counties declared by the Federal Emergency Management Agency (FEMA) to be disaster areas during the previous three years. This is referred to as the "disaster areas increment." It is established through an FHFA analysis of HMDA data for the most recent three years period available. Given the lag in release of the HMDA data, the disaster areas increment for 2010 was based on disaster areas declared between 2007 and 2009, but the increment was calculated using HMDA data for 2006-2008, because 2009 HMDA was not available until later in 2010. The disaster areas increment used in setting the benchmark level of the goal for 2011 was based on disaster areas declared between 2008 and 2010, but the increment was calculated using HMDA data for 2007-2009. Thus, the disaster areas increment, and the resulting low-income areas goal, can vary from one year to the next.

In practice, the disaster areas increment was the same for both 2010 and 2011, at 11 percent; thus, the overall low-income areas goal was 24 percent for both years. As indicated in **Table 8**, Fannie Mae's performance (24.1 percent) exceeded this level for 2010, but Freddie Mac's performance (23.1 percent) did not. For 2011, both Enterprises' performance fell short of the benchmark level, but Fannie Mae's performance (22.4 percent) exceeded the market share (22.0 percent), while Freddie Mac's performance (19.2 percent) fell short of the market share.

The disaster areas increment was 9 percent for 2012 and 10 percent for 2013, thus, the overall low-income areas goal was 20 percent for 2012 and 21 percent for 2013. Both Enterprises' official performance exceeded the benchmark level for 2012, with Fannie Mae at 22.3 percent and Freddie Mac at 20.6 percent. Fannie Mae reported that its performance numbers exceeded the benchmark level for 2013, at 21.6 percent. Freddie Mac's reported performance fell short of the benchmark level for 2013, at 20.0 percent.

Table 8
Enterprise Past Performance on the Low-Income Areas Home Purchase Goal and Subgoal, 2010-13

Year	Type of Home Purchase (HP) Mortgages	Benchmark	Enterprise: Fannie Mae	Enterprise: Freddie Mac	Market Share (HMDA)
2013	Low-Income Tract HP Mortgages		86,430	40,444	
	High-Minority Tract HP Mortgages		27,425	12,177	
	Subgoal Qualifying Mortgages		113,855	52,621	
	Total HP Mortgages		814,066	429,086	
	Subgoal Qualifying % of Mortgages	11%	14.0%	12.3%	NA
	Disaster Area HP Mortgages		62,314	33,123	
	Goal-Qualifying Mortgages		176,169	85,744	
	Goal Qualifying % of Mortgages	21%	21.6%	20.0%	NA
2012	Low-Income Tract HP Mortgages		60,927	24,588	
	High-Minority Tract HP Mortgages		22,275	8,164	
	Subgoal Qualifying Mortgages		83,202	32,752	
	Total HP Mortgages		633,627	288,007	
	Subgoal Qualifying % of Mortgages	11%	13.1%	11.4%	13.6%
	Disaster Area HP Mortgages		58,085	26,486	
	Goal-Qualifying Mortgages		141,287	59,238	
	Goal Qualifying % of Mortgages	20%	22.3%	20.6%	23.2%
2011	Low-Income Tract HP Mortgages		40,736	18,270	
	High-Minority Tract HP Mortgages		13,549	5,632	
	Subgoal Qualifying Mortgages		54,285	23,902	
	Total HP Mortgages		467,070	260,796	
	Subgoal Qualifying % of Mortgages	13%	11.6%	9.2%	11.4%
	Disaster Area HP Mortgages		50,209	26,232	
	Goal-Qualifying Mortgages		104,494	50,134	
	Goal Qualifying % of Mortgages	24%	22.4%	19.2%	22.0%
2010	Low-Income Tract HP Mortgages		44,467	23,928	
	High-Minority Tract HP Mortgages		14,814	8,161	
	Subgoal Qualifying Mortgages		59,281	32,089	
	Total HP Mortgages		479,201	307,556	
	Subgoal Qualifying % of Mortgages	13%	12.4%	10.4%	12.1%
	Disaster Area HP Mortgages		56,076	38,898	
	Goal-Qualifying Mortgages		115,357	70,987	
	Goal Qualifying % of Mortgages	24%	24.1%	23.1%	24.0%

Source: Performance as reported by the Enterprises for 2013; official performance as determined by FHFA for 2010-12. See definitions of "Low-income Tract" and "High-Minority Tract" in text. Tracts which meet both criteria are included as "low-income units." The goal and subgoal were set for 2010-11 based on low-income and high-minority tracts from the 2000 census, and for 2012-14 based on such tracts from the 2010 census. Disaster areas are defined at the county level.

Note: An Enterprise passes a goal if (1) its performance matches or exceeds the pre-set benchmark level, or (2) if its performance falls short of the benchmark level but equals or exceeds the corresponding share of conventional conforming mortgages originated in the primary mortgage market, as determined by FHFA's analysis of Home Mortgage Disclosure Act (HMDA) data for the year, shown in the last column.

Low-income refinancing goal. The refinancing housing goal is targeted to low-income families—families with incomes no greater than 80 percent of AMI—and applies to mortgages that are given to pay off or prepay an existing loan secured by the same property. Qualifying permanent modifications of loans for low-income families under the Administration's Home Affordable Modification Program (HAMP) are also counted toward the refinance housing goal. HAMP modifications are the only type of modifications eligible for counting for purposes of the housing goals. The impact of such modifications on goal performance is shown in **Table 9.**

The low-income refinancing goal was set at 21 percent for 2010 and 2011. As indicated, Freddie Mac's performance exceeded this level for both years, while Fannie Mae barely fell short in 2010 (at 20.9 percent), but exceeded the level in 2011 (23.1 percent).

FHFA lowered the low-income refinancing goal slightly, to 20 percent, for 2012-2014. Both Enterprises' performance surpassed this level, even without taking into account HAMP loan modifications, for 2012. Both Enterprises reported that this was also true for 2013. When including HAMP modifications, reported performance exceeded the goal for both years by wide margins, as shown in **Table 9**: 24.3 percent for Fannie Mae and 24.1 percent for Freddie Mac in 2013.

The data in **Table 9** indicate that HAMP loan modifications have increased the reported performance of the Enterprises on the low-income refinancing goal. This was especially true for 2011, when Fannie Mae's performance was 21.3 percent without HAMP modifications, but 23.1 percent with HAMP modifications. The impact was even larger for Freddie Mac, whose performance was 21.2 percent without HAMP modifications, but 23.4 percent with HAMP modifications in 2011.

In every year from 2010 through 2013, low-income families received at least 67 percent of HAMP modifications at each Enterprise. However, HAMP modifications have had a smaller impact on low-income refinancing goal performance in recent years as volume has fallen, as shown in **Table 9**—for Fannie Mae, from a high of 64,124 modifications in 2011 to 16,478 modifications in 2013, and for Freddie Mac, from 52,910 modifications in 2011 to 21,599 modifications in 2013.

Table 9
Enterprise Past Performance on the Low-Income Refinances Goal, 2010-13

Year	Type of Refinance Mortgages	Benchmark	Enterprise		Market Share (HMDA)
			Fannie Mae	Freddie Mac	
2013	Low-Income Refinance Mortgages		519,753	306,205	
	Total Refinance Mortgages		2,170,063	1,309,435	
	Low-Inc. % of Refinance Mortgages	NA	24.0%	23.4%	NA
	Low-Income Loan Modifications		11,858	14,757	
	Total Loan Modifications		16,478	21,599	
	Low-Inc. % of Loan Modifications	NA	72.0%	68.3%	NA
	Low-Income Refi + Mod Total		531,611	320,962	
	Refi + Mod Total		2,186,541	1,331,034	
	Low-Inc. % of Refinance Total	20%	24.3%	24.1%	NA
2012	Low-Income Refinance Mortgages		582,505	323,822	
	Total Refinance Mortgages		2,742,560	1,508,186	
	Low-Inc. % of Refinance Mortgages	NA	21.2%	21.5%	22.3%
	Low-Income Loan Modifications		22,806	21,753	
	Total Loan Modifications	NA	31,288	31,390	
	Low-Inc. % of Loan Modifications		72.9%	69.3%	NA
	Low-Income Refi + Mod Total		605,311	345,575	
	Refi + Mod Total		2,773,848	1,539,576	
	Low-Inc. % of Refinance Total	20%	21.8%	22.4%	NA
2011	Low-Income Refinance Mortgages		384,598	231,948	
	Total Refinance Mortgages		1,802,131	1,092,894	
	Low-Inc. % of Refinance Mortgages	NA	21.3%	21.2%	21.5%
	Low-Income Loan Modifications		45,656	35,625	
	Total Loan Modifications		64,124	52,910	
	Low-Inc. % of Loan Modifications	NA	71.2%	67.3%	NA
	Low-Income Refi + Mod Total		430,254	267,573	
	Refi + Mod Total		1,866,255	1,145,804	
	Low-Inc. % of Refinance Total	21%	23.1%	23.4%	NA
2010	Low-Income Refinance Mortgages		373,105	286,741	
	Total Refinance Mortgages		1,934,270	1,378,578	
	Low-Inc. % of Refinance Mortgages	NA	19.3%	20.8%	20.2%
	Low-Income Loan Modifications		44,343	25,244	
	Total Loan Modifications		63,428	37,411	
	Low-Inc. % of Loan Modifications	NA	69.9%	67.5%	NA
	Low-Income Refi + Mod Total		417,448	311,985	
	Refi + Mod Total		1,997,698	1,415,989	
	Low-Inc. % of Refinance Total	21%	20.9%	22.0%	NA

Source: Performance as reported by the Enterprises for 2013; official performance as determined by FHFA for 2010-12. "Low-income" refers to borrowers with incomes no greater than 80 percent of Area Median Income (AMI).

Note: An Enterprise passes a goal if (1) its performance matches or exceeds the pre-set benchmark level, or (2) if its performance falls short of the benchmark level but equals or exceeds the corresponding share of conventional conforming mortgages originated in the primary mortgage market, as determined by FHFA's analysis of Home Mortgage Disclosure Act (HMDA) data for the year, is shown in the last column.

B. Projections from the Market Estimation Models

The projections from FHFA's market estimation models for the two single-family owner-occupied home purchase housing goals, one home purchase subgoal, and the refinancing mortgage housing goal, are provided in **Table 10**. For 2015 through 2017, FHFA's model projects that the low-income borrower shares of the home purchase mortgage market will be a point estimate of 20.9 percent, 20.2 percent and 19.8 percent, respectively. The ranges for 2015 are between 14.2 percent and 27.6 percent; the ranges for 2016 are between 12.3 percent and 28.1 percent; and the ranges for 2017 are between 10.8 percent and 28.8 percent.

FHFA's model projects that the very low-income borrower share of the home purchase mortgage market will be a point estimate of 5.8 percent for 2015, 5.7 percent for 2016 and 5.6 percent for 2017. The ranges for 2015 are between 3.8 percent and 7.8 percent; the ranges for 2016 are between 3.3 percent and 8.1 percent; and the ranges for 2017 are between 2.8 percent and 8.4 percent.

FHFA's model projects that the share of subgoal-qualifying mortgages in low-income areas in the home purchase mortgage market, excluding designated disaster areas, will be a point estimate of 14.7 percent for 2015, 14.7 percent for 2016 and 14.2 percent for 2017. The ranges for 2015 are between 10.6 percent and 18.8 percent; the ranges for 2016 are between 9.6 percent and 19.8 percent; and the ranges for 2017 are between 8.3 percent and 20.1 percent.

FHFA's model projects that the share of refinancing mortgages made to low-income borrowers will be a point estimate of 31.0 percent in 2015, 33.5 percent in 2016 and 34.2 percent in 2017. The ranges for 2015 are between 24.2 percent and 37.8

percent; the ranges for 2016 are between 25.4 percent and 41.6 percent; and the ranges for 2017 are between 25.1 percent and 43.3 percent.

Table 10: Actual HMDA Market Performance and Projected Market Performance

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Low-Income Home Purchase Goal	25.3%	29.6%	27.2%	26.5%	26.6%	23.4%	21.4%	20.9%	20.2%	19.8%
						+/- 3.0	+/- 5.2	+/- 6.7	+/- 7.9	+/- 9.0
Very Low-Income Home Purchase Goal	6.5%	8.8%	8.1%	8.0%	7.7%	6.3%	5.9%	5.8%	5.7%	5.6%
						+/- 0.5	+/- 1.4	+/- 2.0	+/- 2.4	+/- 2.8
Low-Income Areas Home Purchase Goal	14.1%	13.0%	12.1%	11.4%	13.6%	13.4%	14.3%	14.7%	14.7%	14.2%
						+/- 1.6	+/- 2.9	+/- 4.1	+/- 5.1	+/- 5.9
Low-Income Refinancing Goal	23.4%	20.8%	20.2%	21.5%	22.3%	22.4%	27.6%	31.0%	33.5%	34.2%
						+/- 3.3	+/- 5.3	+/- 6.8	+/- 8.1	+/- 9.1

Note: Shaded area indicates historical values.

Dated: August 29, 2014
Melvin L. Watt,
Director, Federal Housing Finance Agency.

<FRDOC> [FR Doc. 2014–21118 Filed 9–10–14; 8:45 am]
<BILCOD>BILLING CODE XXXX–XX–P

[FR Doc. 2014-21118 Filed 09/10/2014 at 8:45 am; Publication Date: 09/11/2014]