



# Archives

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### **HUD ANNOUNCES NEW REGULATIONS TO PROVIDE \$2.4 TRILLION IN MORTGAGES FOR AFFORDABLE HOUSING FOR 28.1 MILLION FAMILIES**

WASHINGTON - The U.S. Department of Housing and Urban Development today announced new federal regulations that require the nation's two largest housing finance companies to buy \$2.4 trillion in mortgages during the next 10 years to provide affordable housing for about 28.1 million low- and moderate-income families.

The historic federal regulations by HUD raises the required percentage of mortgage loans for low- and moderate-income families that finance companies Fannie Mae and Freddie Mac must buy annually from the current 42 percent of their total purchases to a new high of 50 percent - a 19 percent increase. "Even with a record high homeownership rate of 67.7 percent, there is still much more to be done. These new regulations will greatly enhance access to affordable housing for minorities, urban residents, new immigrants and others left behind, giving millions of families the opportunity to buy homes or to move into apartments with rents that they can afford," HUD Secretary Andrew Cuomo said. "We acknowledge and appreciate that Fannie Mae and Freddie Mac have accepted this challenge." The mortgage purchase requirement -- also known as the affordable housing goals -- for Fannie Mae and Freddie Mac was last set by HUD in 1995, under a requirement mandated by Congress. The goals came up for renewal last year, and HUD had the choice of leaving them unchanged, or lowering or raising them. In addition to helping low- and moderate-income families, the new federal regulations will also increase the affordable housing goals for loans made to underserved areas and will raise the goal for mortgages to benefit families with very low incomes. A special affordable housing goal for families with very low incomes and low incomes (those with less than 60 percent and 80 percent of area median) jumps from the current 14 percent to 20 percent (a 43 percent increase). In addition, a geographically targeted goal for underserved areas (central cities, rural areas, and underserved communities based on income and minority concentration) increases from 24 percent to 31 percent (a 29 percent increase). Moreover, the new regulations also disallow GSEs (Government Sponsored Enterprises i.e. Fannie Mae and Freddie Mac) from receiving affordable housing goals credit for the purchase of mortgage loans with predatory features. These limitations are consistent with the recommendations contained in the HUD/Treasury report "Curbing Predatory Home Mortgage Lending," issued in June 2000. Under the higher goals, Fannie Mae and Freddie Mac are anticipated to acquire an additional \$488.3 billion in mortgages that will be used to provide affordable housing for 7 million more low- and moderate-income families, many of them minorities, during the next 10 years. Those new mortgages and families are over and above the \$1.9 trillion in mortgages for 21.1 million families that would have been generated if the current goals had been retained. HUD published a proposed rule on these new goals March 9, 2000, with the promise that it would be fully implemented beginning in year 2001. The Federal Regulations published today will take effect January 1, 2001. In evaluating the affordable housing goals for several months, HUD conducted extensive outreach, including public forums, to publicize the proposal and received more than 250 written comments from interested parties, including industry and community organizations, local public officials, and the GSEs themselves. (The new Federal Regulations are posted under "Recent FR Notices" at: [www.hudclips.org](http://www.hudclips.org)) Fannie Mae and Freddie Mac buy mortgages for both individual homes and for apartment buildings. Congress gave HUD the responsibility of regulating the two companies because they were chartered by Congress. The GSEs buy mortgages issued by banks, thrift institutions and other mortgage lenders, and then package the loans and sell them to investors as mortgage-backed securities. When Fannie Mae and Freddie Mac buy mortgages from lenders, they provide lenders with cash needed to issue new mortgages. Congress has given GSEs special advantages - such an exemption from all state and local taxes except property taxes, and an exemption from Securities and Exchange Commission registration requirements. In addition, the ties of the GSEs to government has helped them obtain the highest credit rating to reduce their borrowing costs, and has boosted investor confidence in the two companies, thereby helping to increase their earnings. The Treasury Department reports that the benefits of federal sponsorship are worth almost \$6 billion annually to the GSEs. The GSEs are publicly chartered to provide broad public benefits. Congress, through Fannie Mae's and Freddie Mac's Charter Acts and the 1992 GSE Act, required that the two GSEs, in return for their publicly provided benefits, extend the benefits of the secondary mortgage market to a broad range of Americans. These include low- and moderate-income families, first-time homebuyers, and residents of communities underserved by mortgage credit. If Fannie

Mae and Freddie Mac fail to make a good faith effort to achieve the affordable housing goals, the Secretary of HUD has the authority to impose civil money penalties of up to \$10,000 for each day the failure occurs. Families are considered as having low and moderate incomes if they make no more than the area median income, which varies by community. The national average for the median income is \$47,800.

These new regulations are among a series of actions HUD has taken to increase homeownership in under-served areas, particularly among minority Americans. Though America's homeownership rate is at a record high level of 67.7 percent, there is a disparity between the rate for white borrowers and others. The homeownership rate for whites is 74 percent, while it is 46 percent for both Hispanics and African-Americans.

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U.S. Department of Housing and Urban Development  
451 7th Street S.W.  
Washington, DC 20410  
Telephone: (202) 708-1112 TTY: (202) 708-1455

