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HUD FINALIZES RULE ON NEW HOUSING GOALS FOR FANNIE MAE AND FREDDIE MAC

WASHINGTON - The U.S. Department of Housing and Urban Development has finalized a rule that will require the nation's two largest housing finance companies to increase their purchase of mortgages for low- and moderate-income families and underserved communities.

The new final rule will be published in the Federal Register on November 2 and become effective on January 1, 2005. It will set annual housing goals and new subgoals for Fannie Mae and Freddie Mac for the next four years. These targets will increase year-by-year from 2005 through 2008 and bring Fannie Mae and Freddie Mac to a position of leadership in the mortgage finance industry.

"These new affordable housing goals will help the GSEs achieve the standard that Congress intended-leading the mortgage finance industry in helping low- and moderate-income families afford decent housing," said HUD Secretary Alphonso Jackson. "These new goals will push the GSEs to genuinely lead the market."

HUD's rule establishes new subgoals for low- and moderate-income, underserved areas, and special affordable percentages of home purchase loans that are purchased by the GSEs. The subgoals will help assure that the GSEs promote the national priority of increasing homeownership. The subgoals are limited to metropolitan areas because of limitations on data needed to set the subgoal levels.

The final rule includes consideration of more than 300 comments received from the GSEs, Congress, and a broad spectrum of organizations within the mortgage finance industry. After analyzing the comments and reviewing Home Mortgage Disclosure Act (HMDA) data, the Department decided to reduce by one percentage point some of the housing goals from the levels contained in HUD's proposed rule.

The following chart shows the GSEs' current goal levels, as proposed, and as finalized for 2005-2008:

	Current	2005-2008 Goals			
	Goals	2005	2006	2007	2008
Low- and Moderate-Income					
Current	50%				
Proposed		52%	53%	55%	57%
Final		52%	53%	55%	56%
Special Affordable					
Current	20%				
Proposed		22%	24%	26%	28%
Final		22%	23%	25%	27%
Underserved Areas					
Current	36%				
Proposed		38%	39%	39%	40%
Final		37%	38%	38%	39%

In addition, the GSEs' minimum special affordable multifamily subgoals have been increased-for Fannie Mae, from \$2.85 billion per year for 2001-04 to \$5.49 billion per year for 2005-08, and for Freddie Mac, from \$2.11 billion per year for 2001-04 to \$3.92 billion per year for 2005-08.

HUD projects that to attain the new housing goals, the GSEs together will purchase an additional 400,000 goal-

qualifying home loans during the four-year period 2005-2008 above what they would purchase without the increase in the housing goals. This projection assumes that the GSEs maintain their 2002-2003 rate of goal-qualifying purchases for all of the loans that they purchase, and that HUD is correct in its analysis that 2005-2008 will not produce an unusually heavy volume of refinances in the mortgage market.

Several of the comments received by HUD said that HUD's proposed goals would be unattainable in high-refinance periods when higher income homeowners represent a larger share of the market. While HUD believes that the statute and implementing regulations presently contain procedures to address this issue, it is separately seeking specific recommendations from the public about how HUD can more effectively account for high refinance volumes. HUD is publishing with its housing goals rule an Advance Notice of Proposed Rulemaking soliciting ideas from the public on an appropriate regulatory mechanism to address high refinance volumes.

Among other changes, the final rule also does the following:

- Establishes specific requirements for the GSEs' counting of mortgages toward the housing goals in transactions that involve a seller dissolution option. The final rule provides that for purchases of loans in transactions that give a mortgage seller the option to dissolve the transaction, a GSE can only receive goals credit when the seller's option is limited by a one-year lockout period, unless the Secretary grants a special exception. This provision responds to the Department's concerns about large, year-end transactions that both GSEs undertook in 2003 to meet their housing goals.
- Makes a technical change to clarify its existing regulation prohibiting a GSE from "double counting" mortgages toward the housing goals, i.e., from counting a mortgage that a GSE has already counted toward the housing goals in a previous year.
- Incorporates new procedures for treatment of missing borrower income data and missing data on rents in single-family and multifamily properties in counting mortgages toward the housing goals.
- Adds a number of new regulatory provisions to ensure the integrity of data, information and reports provided to HUD by the GSEs, including a requirement that the GSEs submit a certification with certain reports provided to HUD, and providing mechanisms for addressing material errors, omissions and discrepancies in current and prior year GSE data submissions.

NOTE: *Link to Final Rule will be available on this HUD website after 12:30 pm on November 2.*

Chronology

Final Rule

Proposed rule sent to Congress	April 5
Proposed rule posted in Federal Register	May 3
Comment period ended	July 16 (extended from July 2)
<ul style="list-style-type: none"> • Received 302 comments 	
Final rule sent to OMB	Oct. 1
Final rule sent to Congress	Nov. 1
Final rule on public display at Federal Register	Nov. 1
Final rule published in Federal Register	Nov. 2
Final rule effective	Jan. 1, 2005

Advance Notice of Proposed Rulemaking

- ANPR posted in Federal Register Nov. 2
- Public comment period on ANPR ends Dec. 17
(45-day public comment period)

Background

Fannie Mae and Freddie Mac were created by Congress to help low- and moderate-income families and those in underserved areas achieve the American dream of homeownership by providing a secondary market for targeted mortgages. The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA) directs HUD to set goals that require the GSEs to target a percentage of their business toward low- and moderate-income families, very low-income families, low-income families in low-income areas, and residents of communities underserved by mortgage credit. Families are considered as having low or moderate incomes if they make no more than the median income in their local area.

Fannie Mae and Freddie Mac buy mortgages on homes and apartment buildings from banks, thrift institutions and other mortgage lenders, and then either package and sell them to investors as mortgage-backed securities or hold them in their own mortgage portfolios. When Fannie Mae and Freddie Mac buy mortgages from lenders, they provide lenders with cash needed to make new mortgage loans.

As mandated FHEFSSA, HUD is required to ensure that Fannie Mae and Freddie Mac operate in compliance with their charter purposes. FHEFSSA requires that the Department carry out specific responsibilities that include setting annual housing goals for the GSEs, monitoring and enforcing the GSEs' performance in meeting these housing goals, monitoring compliance with fair lending laws, collecting loan level data from the GSEs on their mortgage purchases, creating and distributing a public use database of non-proprietary GSE purchase data, and approving new GSE programs. The Department also has general regulatory authority over each GSE and is required to make such rules and regulations as are necessary to ensure that the purposes of FHEFSSA and the GSEs' charters are accomplished.

HUD is the nation's housing agency committed to increasing homeownership, particularly among minorities; creating affordable housing opportunities for low-income Americans; and supporting the homeless, elderly, people with disabilities and people living with AIDS. The Department also promotes economic and community development as well as enforces the nation's fair housing laws. More information about HUD and its programs is available on the Internet and espanol.hud.gov.

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