

## HUD Studies Probe GSE Role in Affordable Housing, Point Toward Borrower Targeting over Geography

New research funded by the federal government suggests that Fannie Mae and Freddie Mac were not as effective in providing financing for targeted markets as lenders driven by community reinvestment requirements, although the agencies appeared to be catching up.

The Department of Housing and Urban Development funded 11 projects by independent researchers on the performance of the government-sponsored enterprises in serving underserved markets. The agency this week released four reports from the series, most of which are based on 1996 market data collected from the GSEs as well as Home Mortgage Disclosure Act reports.

According to a study of lending in Indiana by Richard Williams, an associate professor at Notre Dame, only about 15.4 percent of GSE purchases in 1992 met any of the affordable housing targets for the GSEs set by HUD. That was well below the 23.6 percent of non-GSE loans that met the targets, which include lending to individuals of low- and moderate-income and lending in communities with high minority populations or low median incomes.

Although the GSEs improved their performance over the next few years – with 20.8 percent of 1996 activity meeting the targets – they continued to trail the rest of the market, Williams reports. In that year, 26.5 percent of non-GSE loans in Indiana metro markets qualified for the affordable targets. The improvement in GSE performance closely mirrored an increase in targeted lending by mortgage companies, leaving it unclear which party was responsible for the improvement. “Regardless of what caused the recent improvements,” Williams says, “GSEs still have a long way to go before they will be leading the market.”

While lenders subject to the Community Reinvestment Act originated a higher percentage of their business in underserved markets than did non-CRA lenders, their lead declined over the course of the decade, the study found. And focusing only on the race portion of the targeted market, non-CRA lenders produced more of their loans in target-qualifying business than did depositories.

Williams’ analysis of GSE performance in Indiana was generally corroborated by a separate study of the Kansas City metropolitan market done by Kirk McClure, an associate professor at the University of Kansas. McClure’s study was primarily designed to assess the effectiveness of the two major approaches to affordable housing goals: targeting underserved communities or aiming at disadvantaged borrowers.

He found that the GSEs tended to trail the conventional market on both counts. In addition to purchasing a higher share of loans from tracts outside underserved markets, they also tended to lag the industry in lending to very-low income and minority borrowers, he concluded. “When loans to very low-income and minority borrowers are purchased [by the GSEs], these loans tend to be located in strong neighborhoods,” McClure observed. Looking at individual housing tracts, GSE participation tends to be influenced mostly by the value of the housing involved in the transaction rather than employment conditions in the area. At the borrower level, “the GSEs’ level of participation in lending can be described as a flight to safety,” he said.

While cautioning that his findings are not definitive, McClure concluded that the GSEs have greater success in assisting targeted populations than in assisting underserved areas. A benefit of this approach is that it appears to help very low-income and minority households get housing in neighborhoods that provide a good investment and good access to employment.

The downside of this approach is that it does little to reinvigorate troubled communities, the study notes. Access to mortgage credit is one of many ingredients necessary for revitalization to occur, but it won’t, by itself, bring about redevelopment. “If jobs are not present in the deteriorated areas, or are not readily accessible from those areas, then no amount of mortgage credit will make the revitalization possible,” McClure notes. ♦