

From Inside Mortgage Finance, December 17, 1999, pp. 8-9

Fannie Mae Says Recent GSE Studies Draw Narrow Conclusions from Flawed HMDA Data

Recent government-funded research on the affordable housing efforts of government-sponsored enterprises is based on incomplete data and produces narrow results that are inconsistent with broader national trends, a Fannie Mae official said.

The Department of Housing and Urban Development recently released several studies of GSE affordable housing performance done by academic researchers around the country. Two studies reviewed by *Inside Mortgage Finance* suggested that Fannie Mae and Freddie Mac are not “leading the market” in affordable housing, i.e., that other sectors of the housing finance system are producing higher proportions of loans for low- and moderate-income households.

According to Barry Zigas, senior vice president and executive director of Fannie Mae’s national housing impact division, the GSE has “consistently” led the market in owner-occupied purchase mortgage business in metro markets. In 1998, he said, 39.4 percent of the overall market qualified for HUD’s affordable housing targets, compared to 41.3 percent of Fannie Mae’s business.

“We believe we are leading the market in most areas and certainly matching it,” Zigas said, acknowledging that the GSE’s performance could lag behind in some small markets. Two of the studies focused on GSE activity in Kansas City and the metro markets of Indiana.

One of the problems in the studies is that they rely heavily on data gathered under the Home Mortgage Disclosure Act, which does not give full credit to the GSEs, Zigas said. HMDA data only covers loans sold within the same year the loan is originated, he explained, and it only covers the first sale of a loan – missing a substantial amount of business that is sold by correspondents to a wholesaler and then sold to the agencies.

Research that relies on HMDA data “is perplexing to us because it uses a database that we believe is deeply flawed,” the Fannie Mae official said. He noted that Congress recognized the deficiencies of HMDA data and required the GSEs to submit loan-level data to HUD. In fact, the HUD research series was set up for academics to use the GSE data.

Zigas also objected to the conclusion in an analysis of the Kansas City market that the GSEs are more effective in serving targeted borrowers, who often move to stronger housing markets, than in reaching targeted neighborhoods. “How we interact with the marketplace has virtually nothing to do with the characteristics of the property,” the Fannie official said.

“Generally, our concern with these reports is their unclear use of data and a focus on narrow areas that makes it difficult to draw big conclusions about how we’re doing business on a national basis,” Zigas said.

Researcher Defends Data, Methods

Richard Williams, the associate professor at Notre Dame who did the analysis of GSE activity in Indiana, said researchers are forced to use HMDA data to do individual market studies. “Fannie and Freddie release their data in a crippled form for proprietary reasons,” he said. “The GSE data are divided into three unlinkable data sets,” he noted, making it impossible to match market information with key loan characteristics, such as mortgage type and when the loan was sold.

“If the GSEs want researchers to use their data, they should consider releasing it in a more usable form,” Williams said.

It’s necessary to use data that is broader than just GSE activity to compare Fannie and Freddie performance to the overall market, Williams noted. He conceded that HMDA misses a third or more of GSE purchases in some areas – other HUD research has reached similar results – but the missing data appear to be more or less random.

After comparing the GSE and HMDA data, Williams revised his HMDA sample sets to get them as close as possible to the Fannie/Freddie data. “They were virtually the same,” he said. “If there were any biases, they were in the GSEs’ favor.”

The Notre Dame researcher added that his study, as well as those by other researchers, clearly identify the methodology and data sets they use. “The GSEs, on the other hand, have not spelled out how their studies are done, nor have they provided the means for others to verify or contradict their results,” he said. “Without such evidence from the GSEs, it is difficult to assess the validity of their claims.” ♦