

(ii) How economic, demographic, and other factors influence gains and losses in homeownership across metropolitan and rural housing markets;

(iii) Factors that enable low-income families to stay in their homes;

(iv) House price changes and associated impacts on affordability;

(v) Effects of supply constraints, including zoning or other types of regulations, that restrict housing supply and could create barriers to homeownership and lessen the impacts of targeted affordable housing programs; and

(vi) Issues related to immigrant homeownership, the causes of racial gaps in homeownership, and other important policy issues and topics related to homeownership. These studies should provide diverse insights on homeownership across local housing markets, which will help HUD identify the best vehicles to advance its future homeownership strategies to close existing gaps in homeownership.

Affordable Lending. HUD invites proposals for studies of:

(i) The effects on lower-income families of the increase in low-downpayment mortgage programs and the growth of affordable lending during the 1990s, and particularly the programs of Fannie Mae and Freddie Mac;

(ii) The role of major mortgage market institutions such as Fannie Mae, Freddie Mac, the Federal Housing Administration, and depository institutions in increasing credit access for low- and moderate-income and minority families and their communities;

(iii) The extent to which low-downpayment initiatives have furthered affordable lending and homeownership;

(iv) Effects on targeted populations of setting alternative levels of the GSE affordable housing goals and defining the goals in alternative ways; and

(v) Barriers that limit access to credit for low-income and minority families and families in inner cities and low-income neighborhoods.

(2) *Background on Homeownership.* Promoting homeownership has been a long-standing goal of HUD. Underlying this goal is the belief that homeownership is an important aspiration of many American families and that homeownership confers advantages to the homeowner family as well as to society at large. An owned home can provide a decent and safe living environment and is an important source of wealth accumulation. The wealth accumulated from homeownership has made possible the funding of college education of children and a secure retirement for many

American families. The homeownership rate is at a record high, not only for the entire population, but also for the major minority groups in the nation. Even with the current high homeownership rates, many American families who do not yet own a home continue to aspire for homeownership. Homeownership studies are part of an ongoing agenda at HUD to increase opportunities for homeownership for low-income and minority households.¹ HUD recently sponsored studies of the benefits of homeownership² and the impact of the GSE housing goals on homeownership.³ HUD's Office of Policy Development and Research recently published staff research on homeownership issues.⁴ HUD has an ongoing study on the determinants of homeownership gaps among low-income and minority borrowers and neighborhoods.⁵ The studies under this Request for Applications will complement these other studies.

(3) *Background on Affordable Lending. Growth of Affordable Lending During the 1990s.* Economic expansion and lower mortgage rates substantially improved housing affordability during the 1990s. These underlying economic developments were enhanced by new and expanded affordable lending programs developed by primary mortgage market originators, private mortgage insurers, nonprofits, and Fannie Mae and Freddie Mac. During the 1990s, FHA also continued to offer its low-downpayment program that was

¹ In this NOFA, "low-income households" refers generally to households with incomes below 80 percent of area median income. Details appear in HUD's regulation on its oversight of Fannie Mae and Freddie Mac, at 24 CFR part 81.

² Robert Dietz and Donald R. Haurin, "The Social and Private Consequences of Homeownership." Report submitted to the U.S. Department of Housing and Urban Development, Office of Policy Development and Research, May 15, 2001, Grant P-CHI-00615.

³ Brent Ambrose, Thomas Thibodeau, and Ken Temkin, *An Analysis of the Effects of the GSE Affordable Goals on Low- and Moderate-Income Families*. Conducted under contract by the Urban Institute for the U.S. Department of Housing and Urban Development, Office of Policy Development and Research, April 2002.

⁴ Recent examples include "First-Time Homebuyers: Trends From The American Housing Survey," *U.S. Housing Market Conditions, 3rd Quarter 2001*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, November 2001; and "Changing Importance of Unmarried Women as Homebuyers: Trends From The American Housing Survey," *U.S. Housing Market Conditions, 4th Quarter 2001*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, February 2002.

⁵ A HUD-funded study, "Homeownership Gaps Among Low-Income and Minority Borrowers and Neighborhoods," is being conducted by Abt Associates under contract C-OPC-21895 Task Order 4.

particularly attractive to low-income and minority first-time homebuyers. As a result of initiatives in both the conventional and government markets, many young, low-income, and minority families who were closed out of the housing market during the 1980s re-entered the market during the 1990s. However, many households still lacked the financial resources and earning power to take advantage of housing opportunities in recent years. Several trends contributed to the reduction in the real earnings of young adults without college education over the last 15 years, including technological changes that favored white-collar employment, losses of manufacturing jobs, and wage pressures exerted by globalization. Fully 45 percent of the nation's population between the ages of 25 and 34 have no advanced education and are therefore at risk of being unable to afford homeownership. This is especially true of African Americans and Hispanics, who have lower average levels of educational attainment than whites.

HUD's Secondary Mortgage Market Regulatory Role. Fannie Mae and Freddie Mac, government-sponsored enterprises (GSEs) in the secondary mortgage market, are the two largest sources of housing finance in the United States. They play a dominant role in determining the nature and volume of affordable lending activities in the primary mortgage market. They provide funding for additional mortgage lending by purchasing loans from mortgage lenders and holding purchased loans in portfolio. Fannie Mae and Freddie Mac also issue mortgage-backed securities (MBS), which are then sold in the capital markets to a wide variety of investors.

In 1992, Congress enacted the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA). This act established the current regulatory structure for the GSEs. One important aspect of this legislation required the Secretary of HUD to establish annual affordable and geographic goals for the GSEs' purchases of mortgages. Under this authority, the Secretary initially set goals for 1993-95 (referred to as the "transition period"), raised them for 1996-2000, and raised them again for 2001-03. The three broad goals include:

1. A low- and moderate-income goal, which focuses on families with below-median incomes;
2. An underserved areas goal, targeted to low-income and minority census tracts in metropolitan areas and counties in non-metro areas; and