

## HOUSING IN RURAL AMERICA

The United States is experiencing one of the most extensive and painful economic crises in memory. It is well established that housing markets are at the heart of this crisis, and millions of American households are having trouble meeting their mortgage payments or rent and are facing foreclosure or eviction. It is difficult to determine the extent of foreclosures and housing distress in rural communities but, at a minimum, hundreds of thousands of rural residents have lost their homes to foreclosure or are mired in delinquency and unsustainable debt. While problems from the recent housing crisis are not to be overlooked, far too many rural residents have struggled with housing problems and inadequacies for years, if not decades, before the national housing crisis hit.

### THE RURAL HOUSING STOCK

According to the 2010 Census, there are approximately 132 million housing units (both occupied and vacant) in the United States. This number represents an increase of roughly 16 million units, or 14 percent, from the year 2000. In rural and small town communities there are just over 30 million housing units, making up 23 percent of the nation's housing stock. The number of rural housing units increased by nearly 3 million (11 percent) between 2000 and 2010. Following general population trends, the growth in housing units was largest in suburban and exurban communities over the past decade. Between 2000 and 2010, nearly 70 percent of growth in housing units nationally was in suburban areas.

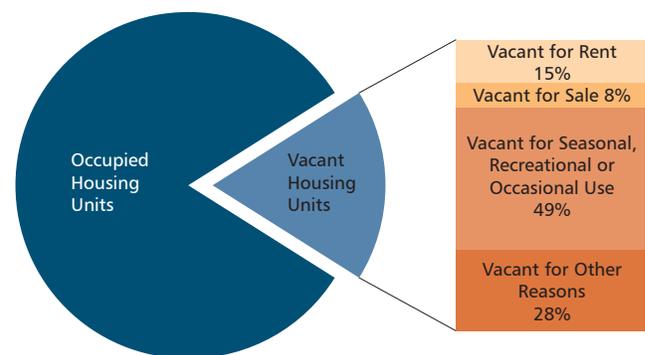
### HOUSING OCCUPANCY AND VACANCY

Of the nearly 132 million housing units nationwide, approximately 89 percent are occupied. In rural and small town communities, however, the housing occupancy rate is lower, at 82 percent. Much of the higher vacancy rate in rural areas is due to homes left unoccupied for

seasonal, recreational, or occasional use. Often referred to as “vacation homes,” these units comprise approximately half of all rural and small town vacancies. Vacation homes are much more common in amenity-rich rural locales. In fact, nearly 60 percent of all vacant, seasonal, or recreational homes nationwide are located in rural and small town areas. In contrast, the rate of rural and small town vacant units classified as “for rent” (14.9 percent) is nearly half the national rate (27.6 percent). Rural and small town housing vacancies are greatest in states with substantial numbers of vacation homes.

### HOUSING VACANCIES ARE MUCH HIGHER IN RURAL AMERICA, LARGELY BECAUSE OF SEASONAL AND VACATION HOMES

Rural & Small Town Housing Vacancy, 2010



Source:  
HAC Tabulations of 2006-2010 American Community Survey (ACS)

Figure 18

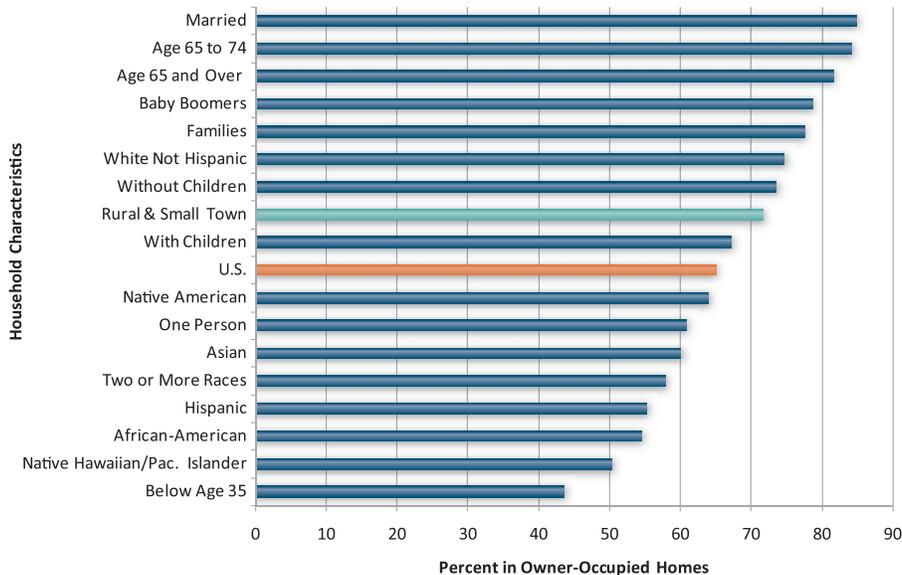
### HOMEOWNERSHIP

The United States is largely a nation of homeowners. Owning a home has traditionally been a foundation of the “American Dream,” conveying prosperity, financial security, and upward mobility – or so it was thought until 2008. Today, the housing crisis and flagging economy have taken some of the luster from homeownership, and have called into question elements of our nation's housing systems and policies.

Homeownership was not always the norm in the United States. In 1910, less than half of all U.S. homes were owned by their occupants. Yet over the past century, Americans have increasingly purchased their own homes – aided largely by rising incomes and a burgeoning mortgage finance system. In 2010, 65.1 percent of

## HOMEOWNERSHIP RATES VARY WIDELY ACROSS THE RURAL SPECTRUM

### Rural & Small Town Homeownership by Selected Demographics, 2010



Source:  
HAC Tabulations of 2006-2010 American Community Survey (ACS)

Figure 19

U.S. homes were owner occupied. This rate is actually lower than the 2000 homeownership level of 66.2 percent, but homeownership rates have consistently been above 60 percent since the 1960s.

In rural and small town communities homeownership rates are even higher than the national level. In 2010, approximately 17.9 million, or 71.6 percent, of occupied homes in rural communities were owned by their inhabitants. Consistent with national trends, the 2010 rural homeownership rate declined by two percentage points from the year 2000 level.

Ownership of housing varies across racial and ethnic groups in rural and small town communities. As is the case nationwide, rural and small town minorities have substantially lower homeownership rates than white non-Hispanic households. Nearly three-quarters of rural white non-Hispanic headed households own their homes, while just 56 percent of rural minority-headed households are homeowners. The homeownership rate for rural and small town African Americans and

Hispanics (55 percent) is 20 percentage points lower than that of white non-Hispanic households in rural communities. At the same time, the level of rural minority homeownership is eight percentage points higher than that of minorities in the United States as a whole.

Some of the largest differences in rural and small town homeownership rates are seen across age groups. Typically, homeownership rates increase with age. For example, only 44 percent of rural and small-town householders below age 34 own their homes, compared to 82 percent of those age 65 and over. While seniors have among the highest homeownership levels of any rural and small town demographic group, these too vary by age. The

homeownership rate for householders age 65 to 74 is 84 percent, while the homeownership rate for seniors age 85 and over is lower at 70.8 percent. The much discussed “Baby Boom” generation (age 45 to 64 in 2010) also has high homeownership rates in rural and small-town areas. Nearly eight in ten rural and small town baby-boomers own their homes, a rate that is six percentage points higher than their suburban and urban boomer counterparts.

Though rural and small town homeownership rates declined across all racial and ethnic groups, they declined most dramatically among rural and small town African-American households. Between 2000 and 2010 the rural and small town African-American homeownership rate declined by 5.2 percentage points.

Homeownership does not mean the same thing for every homeowner. Housing tenure in the United States is often viewed through an “either-or” lens, in which a household either owns or rents a home. In actuality, there are three basic forms of housing

<sup>v</sup> These are general categories based primarily on tenure of the housing unit alone. It is important to note that there is an array of land-home tenure arrangements within the categories of owned and rented homes (e.g. housing cooperatives, shared equity homeownership, tribal trust land, contract for deed, etc.). The Census Bureau provides data on owner- and renter-occupied housing units only.

tenure: 1) renting, 2) owning with a mortgage, and 3) owning without a mortgage – often referred to as “free and clear” homeownership, in which a homeowner has no mortgage debt.<sup>v</sup> A slightly closer look at data from the 2010 Census provides some insight into mortgage-free, or what could be called “true,” homeownership, especially in rural communities.

Mortgage-free homeownership is more common in rural areas and small towns than in suburban and urban places. Nearly 42 percent of homeowners in rural and small town America own their homes free and clear of mortgage debt, compared to roughly 27 percent of suburban and urban homeowners.

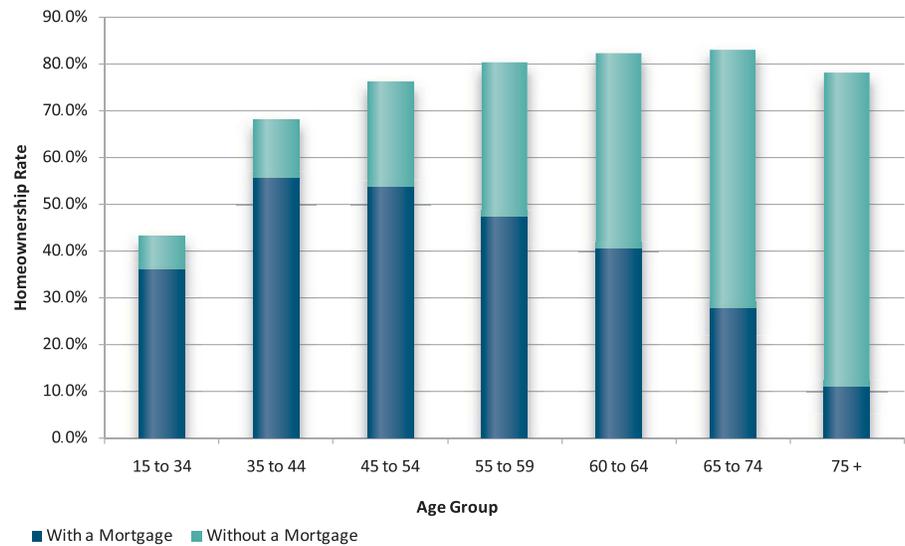
The higher rate of mortgage-free homeowners in rural and small town areas is likely attributable to several factors. First, there are a large number of manufactured homes in rural areas. Manufactured homes, typically financed through personal property loans, have shorter loan terms than standard mortgage financing. These finance elements combined with relatively low purchase prices result in a substantial number of debt-free manufactured homes.

Demographic and age factors also impact the mortgage status of rural homeowners. The population is older in rural and small town communities than in the nation as a whole, including more senior households. Typically, homeownership rates increase and mortgage debt declines with age. Over three-quarters of rural homeowners age 65 and over own their homes free and clear.

While more rural households own their homes without mortgages, it is also important to note the equity they accumulate is likely to be less than that for homes in urban or suburban areas because rural houses are generally less expensive. Factors such as distance from employment opportunities and amenities contribute

## AS RURAL HOMEOWNERS AGE, THEY HAVE LESS MORTGAGE DEBT

Rural & Small Town Homeownership by Age and Mortgage Status, 2010



Source:  
HAC Tabulations of 2006-2010 American Community Survey (ACS)

Figure 20

to the lower value and appreciation of homes in many rural and small town markets. In rural and small town communities, over 40 percent of homes are valued at less than \$100,000, compared to 23 percent of homes nationally. Additionally, many households residing in manufactured homes may own their homes, but not the lot on which their unit is placed. Residents who rent the land under their home may have reduced potential for appreciation in its value.

Home values and assets may be lower in rural areas, but higher levels of homeownership, as well as mortgage-free homeownership, are not insignificant statistics. Following a decade of lax financing standards and unconstrained housing consumption, millions of homeowners across the nation are “underwater” with substantial and, in some cases, unsustainable levels of housing debt. While the housing crisis did not spare rural America, many rural and small town homeowners are buoyed by relatively large levels of equity in their homes. A home is still the largest asset most Americans will ever own. Despite stagnant and declining home values nationally, asset and investment accumulation through homeownership is still a considerable economic factor for many rural residents.

## RENTAL HOUSING

For much of the past decade, a near singular focus on purchasing and owning homes in the United States overshadowed and even marginalized the housing needs of renters. In rural America, where rental housing options are even less available, some residents need or desire to rent homes as an alternative to homeownership. Supply and affordability constraints still make renting difficult for many rural Americans, however. There are approximately 7.1 million renter-occupied units in rural communities, comprising 28.4 percent of the rural and small town housing stock. The rural rental housing rate is approximately eight percentage points lower than national levels and rural renters occupy only 17 percent of all U.S. rental housing units.

The physical composition of rural rental housing differs from rental characteristics nationally. Rural renters are most likely to live in single-family homes or in small

multifamily structures rather than large buildings or apartment complexes. Nearly 43 percent of rural renters occupy single-family homes – twice the rate of urban renters. Slightly fewer rural renters (41 percent) live in structures of two or more apartments. Manufactured housing is much more prevalent in rural areas than in urban locales, and 12 percent of rural renter-occupied units are manufactured homes, more than twice the national rate. Rural renters also typically live in older housing than rural homeowners – 35 percent of rural renter-occupied units were built before 1960.

Nationally, as well as in rural areas, racial and ethnic minorities are more likely to be renters than white non-Hispanics. While rural minorities are more often homeowners than not, 44 percent of rural and small town minority-headed households rent their homes, compared to one-quarter of rural white non-Hispanic households. Rental housing is particularly important to

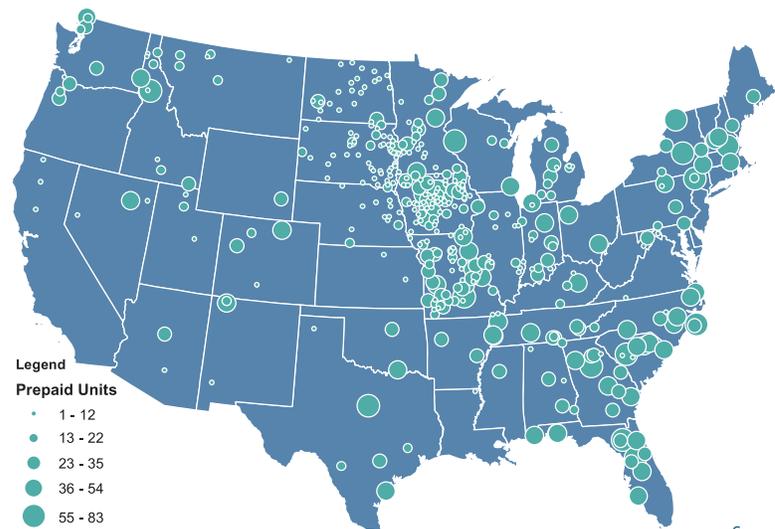
### RURAL RENTAL HOUSING AT RISK: PREPAYMENT OF USDA'S RENTAL HOUSING STOCK

USDA's Section 515 loan program provides more than 400,000 decent, affordable rental homes for rural Americans with low incomes, but many of these rentals are now at risk of being lost as low-income housing. Under current law, owners of projects that received Section 515 loans prior to 1989 can request prepayment of the loan balances and convert the projects to market-rate housing, albeit with some restrictions designed to encourage affordable housing preservation. Owners of projects that received loans prior to 1979 can generally request prepayment of a Section 515 loan at any time.

Within the past decade, Section 515 owners have prepaid the loans on over 50,000 affordable homes, removing the mortgage provisions requiring them to house low-income residents. Many more loans are likely to be prepaid over the next several years. These prepayments are largely occurring in the Midwest and Southeast. Approximately 7,000 Section 515 projects (encompassing over 195,000 units) are eligible to prepay. Another 2,000 Section 515 properties built before 1989 will ultimately be eligible to prepay, but "restrictive use clauses" require them to remain affordable for low-income tenants for specified time periods. Overall, 46 percent of all properties with active Section 515 mortgages are eligible to prepay now, while a total of 60 percent will be in the near future.

#### USDA SECTION 515 RURAL RENTAL HOUSING

Loan Prepayments FY2006-FY2010

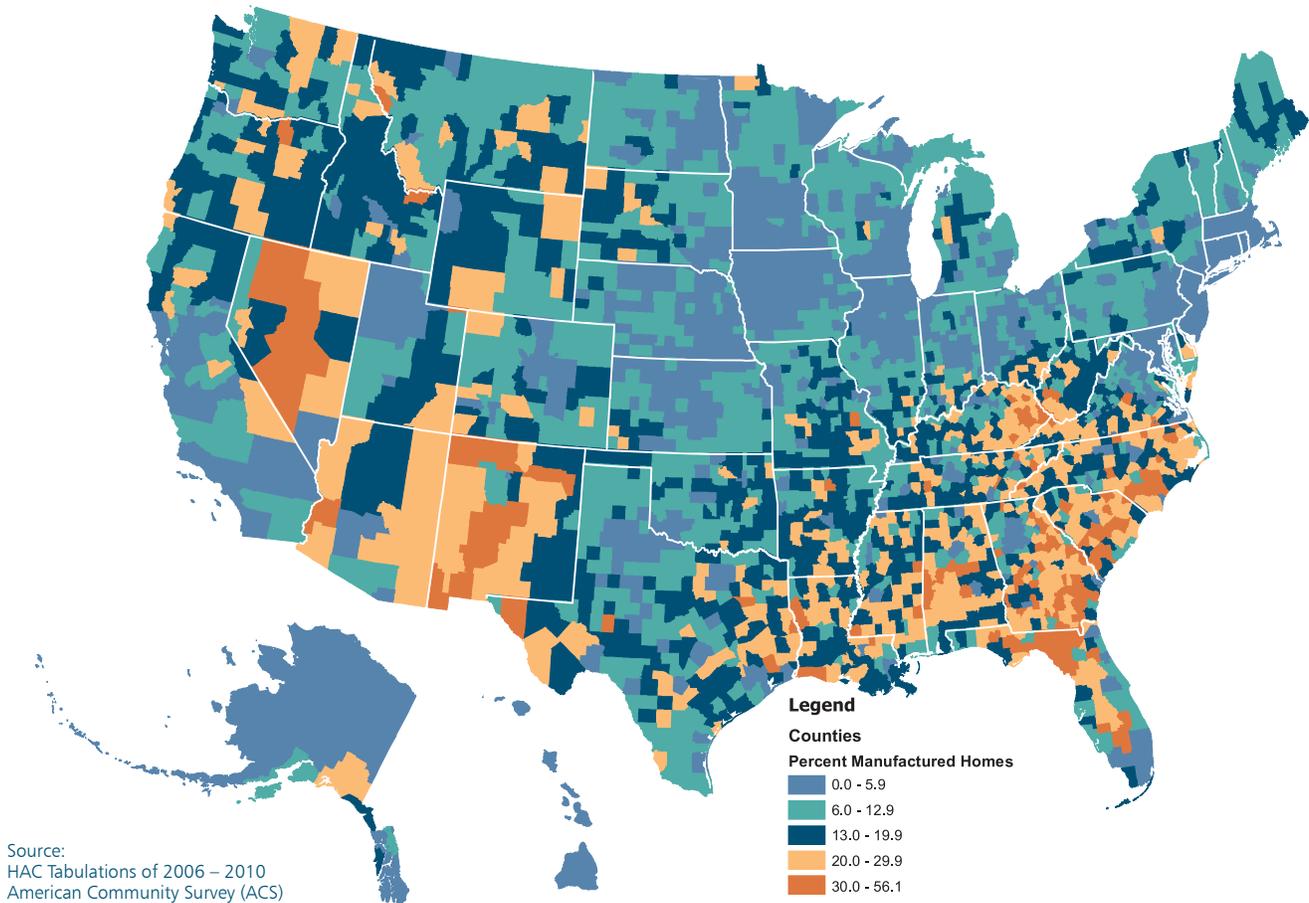


Source:  
HAC Tabulations of USDA Data

Figure 21

## MORE THAN HALF OF ALL MANUFACTURED HOMES ARE LOCATED IN RURAL AND SMALL TOWN AREAS

### Manufactured Homes as a Percent of All Occupied Housing Units



Source:  
 HAC Tabulations of 2006 – 2010  
 American Community Survey (ACS)

Figure 22

other rural groups including younger persons, households with children, and non-family households. As an example, nearly two-thirds of rural households below the age of 35 rent their homes.

Rural renters generally have much lower incomes than rural homeowners; renters' median household income is approximately \$25,833, compared with \$49,141 for rural and small town owners. Poverty levels among rural renters are also much higher. Nearly one-third of rural and small town families<sup>vi</sup> living in renter-occupied homes have incomes below the poverty level, compared with 7 percent of owner families. Rural renter households also experience some of the most significant

housing problems in the United States. Renters in rural areas are more likely to have affordability problems and are twice as likely to live in substandard housing than rural owners.

The imbalances in favor of owner-occupied housing in rural areas may not be based entirely on preference, as there is a dearth of rental homes and rental options in many rural communities. With demographic transformations such as a growth in single-person households and the burgeoning senior population, the need for adequate and affordable rental housing looms large for many rural communities. Simply put, affordable rental options are vitally necessary, yet in short supply in rural America.

<sup>vi</sup> Census ACS figures only provide poverty estimates by housing tenure for families, not households.

## MANUFACTURED HOUSING

Manufactured homes – often referred to as mobile homes or trailers – are an important source of housing for millions of Americans, especially those with lower incomes and in rural areas. Manufactured housing in the United States is an assortment of varied structures, technologies, perceptions, and persisting challenges. There are approximately 7 million occupied manufactured homes in the U.S., comprising about 7 percent of the nation’s housing stock. More than half of all manufactured homes are located in rural areas around the country. Also, more than half of all manufactured homes are located in Southeastern states.

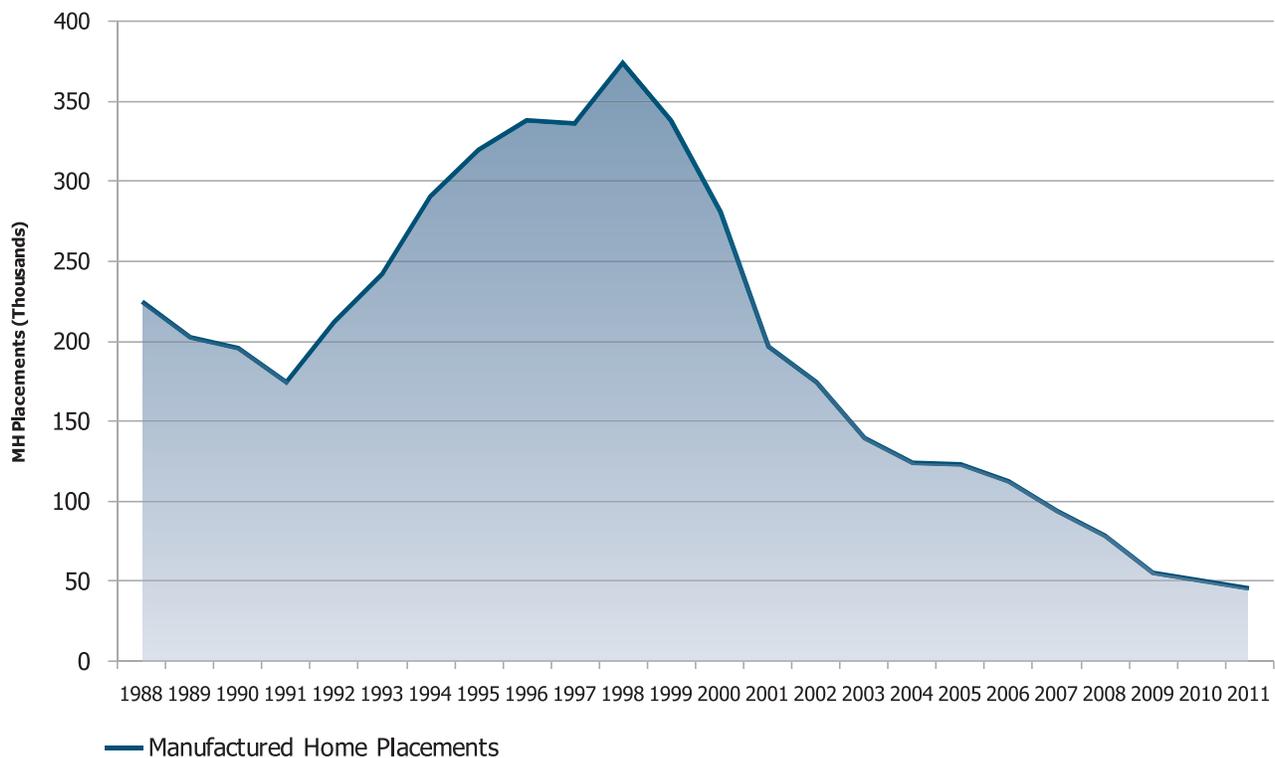
The income demographics of those living in manufactured housing are changing. Increasingly people with a variety of incomes are living in manufactured homes, but households at the lower end of the income spectrum

are still their primary residents. The median annual income of households living in manufactured housing nationwide is \$30,000, nearly 40 percent less than that of households living in non-manufactured homes.<sup>37</sup>

While the physical and structural attributes of manufactured housing have improved over time, issues related to the sale, finance, appraisal, and placement of this type of housing often remain problematic. Today the majority of manufactured homes are still financed with personal property, or “chattel,” loans.<sup>38</sup> With shorter terms and higher interest rates, personal property loans are generally less beneficial for the consumer than more conventional mortgage financing. Exacerbating these finance issues, manufactured homes are typically sold at retail sales centers where salespersons or “dealers” receive commissions. In some cases, dealers resort to high-pressure sales tactics, trapping consumers into unaffordable loans.<sup>39</sup>

### MANUFACTURED HOME PLACEMENTS ARE AT THEIR LOWEST LEVELS IN DECADES

New Manufactured Home Placements, 1988 – 2011



Source:  
HAC Tabulations of U.S. Census Bureau Construction Reports

Figure 23

## HIDDEN COMMUNITIES: MANUFACTURED HOME PARKS IN RURAL AMERICA

Manufactured housing is an overlooked segment of our nation's housing stock, and manufactured home parks are especially maligned or "hidden," within many communities. Land-lease manufactured home communities, often referred to as "mobile home" or "trailer" parks, are home to over 2.3 million households nationally.<sup>41</sup> Contrary to popular perception, most manufactured homes are not located in park or community settings. Still, the Housing Assistance Council estimates that there are more than 50,000 manufactured home communities in the United States.<sup>42</sup> Households who reside in park settings have lower incomes and are more likely to be elderly than their counterparts in scattered site manufactured homes.<sup>43</sup>

The number of manufactured homes being placed in parks is declining. In 1981, more than half of all newly produced manufactured homes were placed in community or park settings. By 2011, only one-quarter of new units were located in parks.<sup>44</sup> A recent Government Accountability Office (GAO) report on FHA's Title I loan insurance program also noted that very few new manufactured home communities are currently being developed.<sup>45</sup>

In manufactured home communities, usually one individual or entity owns the land, while residents own their homes and rent the land on which their homes sit. In this land tenure arrangement, residents are frequently both owners and renters, and are often caught in a "gray area" of legal protection and recourse. Several states and jurisdictions have enacted special protections for residents of manufactured housing communities, but these vary widely. According to a recent analysis by AARP, at least 15 states have no manufactured home park statutes at all.<sup>46</sup> Rent controls, advance eviction notices, and first right of refusal to buy a community are important protections. In some states the legal status for manufactured home community residents is similar to an apartment renter where a management company may evict tenants with only 30 days' notice.

Another concern is the increased number of manufactured home park closures in recent years. In many instances, closures are driven by increasing land values where higher rents or incomes from the sale of land can be commanded. Other communities close due to lack of revenue in declining or unprofitable housing markets. Whatever the cause, closures of manufactured home communities have hit epidemic levels in some places. Exacerbating the rapid nature of closures are weak legal protections for tenants and prohibitively expensive relocation and moving costs.<sup>47</sup> The combination of these factors is threatening an already vulnerable population residing in one of the few affordable housing resources in this nation.



Such lending and retail practices, along with the downturn in the economy, have contributed to a decline in sales of new manufactured homes. In fact, the nation's current housing woes are surprisingly reminiscent of events in the manufactured housing industry in the early 2000s. After experiencing dramatic growth throughout much of the 1990s, sales and shipments of manufactured housing spiraled downward into a sustained slump. An overextension of credit and risky financing backfired after record-high foreclosure rates produced a glut of manufactured units, depressing the market. Placements of new manufactured housing units are at their lowest levels in decades, and many large manufacturers and retailers have exited the market or declared bankruptcy. The number of manufactured home place-

ments has declined steadily from over 370,000 in 1998 to less than 47,000 in 2011.<sup>40</sup>

## MORTGAGE ACCESS AND THE FORECLOSURE CRISIS

Not long ago, housing was a centerpiece of the strong and growing United States economy. In the latter part of the past decade, the mortgage foreclosure crisis devastated financial markets, local communities, and individual homeowners across the nation. Rural America has not escaped unscathed. More than four years into the housing crisis, however, it is still difficult to determine the extent of housing foreclosures and loan delinquencies in rural areas.

Figure 24. NEARLY 30 PERCENT OF RURAL MORTGAGES WERE MADE BY JUST 10 BANKS

## HMDA HOME PURCHASE ORIGINATIONS FOR SMALL TOWN AND RURAL CENSUS TRACTS, 2010

RANK	BANK	HOME PURCHASE LOANS	AMOUNT (THOUSANDS) OF DOLLARS	PERCENT OF ALL LOANS
1	WELLS FARGO BANK, N.A.	37,617	6,417,224	11.16
2	BANK OF AMERICA, N.A.	15,877	2,708,432	4.71
3	US BANK, N.A.	11,059	1,426,891	2.48
4	JPMORGAN CHASE BANK, N.A.	9,252	1,303,479	2.27
5	USAA FEDERAL SAVINGS BANK	6,404	1,144,451	1.99
6	BRANCH BANKING AND TRUST CO.	5,902	902,388	1.57
7	SUNTRUST MORTGAGE, INC.	4,145	804,479	1.4
8	PHH MORTGAGE CORPORATION	5,389	776,596	1.35
9	METLIFE BANK, N.A.	4,228	704,209	1.23
10	FLAGSTAR BANK	4,301	678,402	1.18

Source: HAC Tabulations of 2010 Home Mortgage Disclosure Act Data

## ACCESSING MORTGAGE FINANCE IN RURAL AMERICA

Changes in the financial and mortgage lending landscape over the last two decades have impacted rural communities. Bank and financial institution mergers have occurred at an accelerated pace, transforming the rural mortgage marketplace. The number of FDIC-insured lenders fell by 28 percent between 1997 and 2009, dropping from 11,455 to 8,298.<sup>48</sup> Meanwhile, the number of banks and thrifts reporting loan activity under the Home Mortgage Disclosure Act (HMDA)<sup>vii</sup> declined from more than 8,000 in 2005 to fewer than 5,000 in 2010. The impacts of bank consolidation are also evident in concentrations of home mortgage activity within rural communities. In 2010, nearly 30 percent of all rural and small town HMDA-reported home purchase loans were made by just 10 banks.<sup>49</sup>

Bank mergers and consolidations may impact rural communities in other ways as well. Large banks serving places far from their home bases may not be as attached to the communities they serve as smaller community banks would.<sup>50</sup> As a result, large banks do not fully know their new customer base, and they may make fewer loans and be less involved in the community.

The economic crisis has also impacted rural mortgage access and provision. In rural areas, applications for home purchase loans declined by 56 percent between 2003 and 2010. This represents a considerable decline in overall economic activity for many small communities.

In the wake of the housing crisis, home refinance has largely dominated lending activity. In 2008, 49 percent of all originations involved refinancing, while 43 per-

<sup>vii</sup> While HMDA data are a critical resource to understanding lending trends, the limitations of these data in rural areas must be acknowledged. Only those depository institutions with assets of \$39 million or more that were headquartered in a metropolitan area were required to report HMDA data in 2010. Consequently, an undetermined number of rural lending data are unavailable, as many small, rural financial institutions are not required to report lending information.

<sup>viii</sup> At the time the 2010 HMDA data were collected, federal regulations defined “high-cost” mortgages as loans with an interest rate at least 1.5 percentage points for first-lien loans (3 percentage points for secondary-lien loans) higher than the annual percentage rate offered on prime mortgage loans of comparable type.

cent involved home purchases. By 2010, however, the proportions were 62 and 33 percent respectively. Low interest rates, along with poor economic conditions, have precipitated this change.

### THE HIGH COST OF MORTGAGE BORROWING IN RURAL AMERICA

The high cost of lending and mortgage access in rural communities continues to be substantial. In 2010, approximately 95,819 (3.8 percent) of all home purchase originations in the United States were classified as high-cost loans.<sup>viii</sup> In rural areas, approximately 8.7 percent of all home purchase originations were high-cost loans, accounting for 35.7 percent of such loans nationwide. Rural minorities receive disproportionate levels of high-cost loans: 10.6 percent, compared to 8.6 percent for rural white non-Hispanics. The level of high-cost lending was also greater for low-income rural borrowers. For households with annual incomes below \$25,000, approximately 17.4 percent of rural home purchase originations reported by HMDA were high-cost. In contrast, only 5.7 percent of rural households with incomes above \$100,000 had high-cost loans.

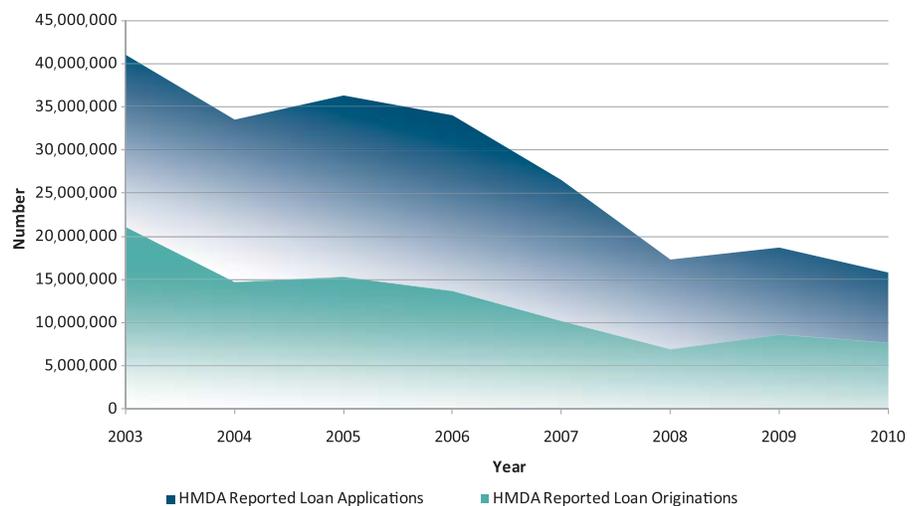
The reduced loan origination volume is accompanied by high mortgage denial rates in rural areas. The denial rate for 2010 home purchase loan applicants was 18.4 percent in rural and small town census tracts and 14.6 percent nationally.

### THE FORECLOSURE CRISIS

The foreclosure crisis was at the center of the national economic discussion for much of the past decade. Uncharacteristic for housing issues, foreclosures garnered substantial attention from the public, policy makers, and the press. But foreclosure activity has not been as well analyzed in relation to

#### MORTGAGE LOAN ACTIVITY HAS DECREASED BY MORE THAN HALF SINCE 2003

U.S. HMDA Reported Mortgage Applications & Originations, 2003 – 2010



Source:  
HAC Tabulations of 2000-2010 Home Mortgage Disclosure Act Data

Figure 25

#### THE BAD CREDIT AND DEBT TRAP

Bad credit and household debt are substantial impediments to accessing quality mortgage finance, especially for low-income households. In recent years American consumers have been awash in easy access personal credit, especially through credit cards with high fees and interest rates. Additionally there has been an increase in unpaid medical bills and credit collections associated with utilities, cell phones, and other expenses.<sup>51</sup> According to 2010 HMDA data, credit history was the reason cited most frequently for home purchase loan denials. Approximately 47 percent of denied mortgage applications in rural and small town areas were based on bad credit history or a high debt to income ratio in 2010.<sup>52</sup> Similarly, a recent review of USDA Section 502 direct loan mortgage applications indicated that 45 percent of loan denials were based on unfavorable credit history.<sup>53</sup> Nonprofit stakeholders have long commented that in order to qualify borrowers for affordable homeownership programs, they must often consider hundreds of applicants, largely because of credit problems and debt load.<sup>54</sup> A poor credit history, especially when combined with low incomes, is increasingly making a home mortgage with a prime interest rate out of reach for many rural homebuyers.

rural areas as it has been for cities and suburbs. The diversity of rural housing markets, along with the vast rural landscape itself, contributes to this lack of understanding. Assessing the level of foreclosure and housing distress is complicated by factors in-

cluding geography, legal considerations, and procedures. The primary constraint, however, is a lack of publicly available and reliable data on rural mortgage performance.

#### WHAT IS THE FORECLOSURE RATE IN RURAL AMERICA?

The rural foreclosure rate is difficult to determine. The few estimates available vary widely, depending on the data sources consulted. Some data collectors use public records, while others rely on internal business and loan-level information.<sup>57</sup> Yet other sources compile indirect and external data to craft their foreclosure estimates. More commonly, however, information resources simply do not provide complete or accurate loan performance data for rural communities.

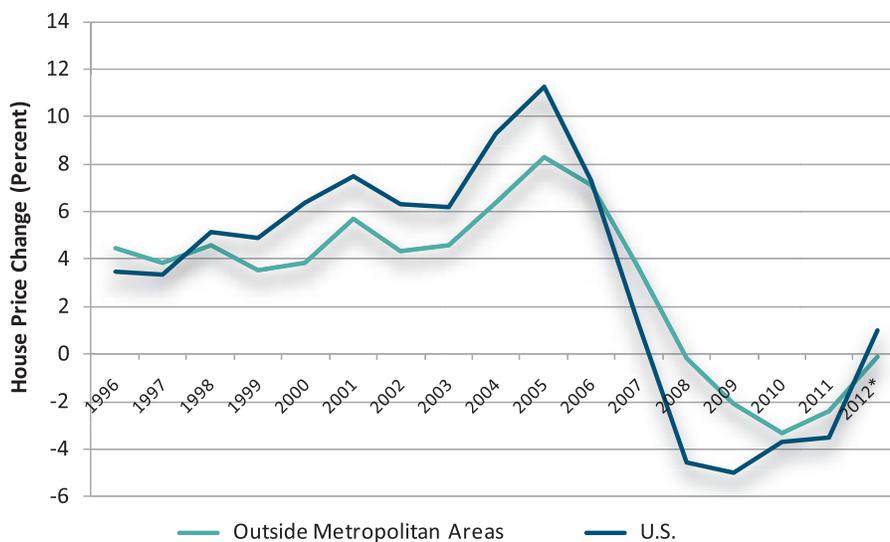
The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act requires creation of a national foreclosure database to be jointly administered by HUD and the new Consumer Financial Protection Bureau (CFPB). While few details of the proposed database are known at the time of this writing, this resource could provide much-needed information on the foreclosure situation in rural America.

Ultimately, quality and accurate data is needed to understand and address the mortgage default and foreclosure crisis. More importantly, a comprehensive understanding of mortgage performance for the entire United States, including rural areas, is essential for returning to healthy housing and mortgage markets.

While reliable data from which to ascertain the level of foreclosures in rural areas is scarce, recent HUD-collected information provides a snapshot of the foreclosure crisis in rural communities in 2009 and 2010. Data from HUD's Neighborhood Stabilization Program 3 (NSP3) estimates that approximately 291,000 rural homes started the foreclosure process and 141,615 entered real estate owned (REO) status between June 2009 and July 2010. Stated another way, up to 432,000 rural homeowners either lost or were on their way to losing their homes during that 14-month period.<sup>55</sup> According to HUD NSP estimates, approximately 14 percent of all foreclosure starts and completions in the 2009-2010 period occurred in rural areas.<sup>56</sup>

#### HOME PRICES OUTSIDE METROPOLITAN AREAS DECLINED IN THE LATE 2000S, BUT LESS DRAMATICALLY THAN PRICES NATIONALLY

House Price Change, 1996-2012\*



Source:  
HAC Tabulations of Federal Housing Finance Agency (FHFA) House Price Index

Figure 26

\* Through first two quarters of 2012

The foreclosure crisis is not monolithic and manifests itself in different ways across different markets. One factor widely linked to the national housing crisis was dramatic housing price growth. Starting in the early 2000s unprecedented, and in many instances unsustainable, price increases drove the housing frenzy. Recently, a troubled economy, record home foreclosures, and tightened credit availability have depressed markets and sent housing prices plummeting in many locales across

\*The figures on housing price change derive from the Federal Housing Finance Agency price index and, because of data limitations, refer to households outside metropolitan areas, not rural and small town areas as used primarily in this study.

the nation. Real housing prices have dropped to 1990s levels in some metropolitan markets.<sup>58</sup> Yet there is some indication that the boom and bust cycle for housing prices experienced in many markets did not follow the same pattern in rural America. According to Federal Housing Finance Agency (FHFA) figures, many homes outside metropolitan areas<sup>ix</sup> did in fact experience price increases over the past few years. These gains were not as dramatic, however, as those in metropolitan areas. Likewise, housing price declines outside of metropolitan areas were not as precipitous as those in urban locales.<sup>59</sup> Still, housing prices outside metropolitan areas eventually declined into negative territory and have lagged behind national price appreciation rates as the housing market begins a recovery.

The proliferation of subprime, and in some instances predatory, lending also contributed to foreclosures in rural communities. Subprime loans tend to have higher interest rates and shorter terms than the more conventional prime loans because they are assumed to go to borrowers who are at a higher risk of default. Subprime lenders are more active in low-income and minority communities.<sup>60</sup> Subprime and low-downpayment lending has allowed many low-income households to achieve homeownership. These factors, combined with often onerous loan terms and fees, spelled economic disaster for many rural homeowners with subprime mortgages.

While the problem of rural foreclosure remains murky, it is safe to assume that hundreds of thousands of rural households were, or continue to be, impacted by the foreclosure crisis. Furthermore, these housing problems may linger in rural communities due to a lack of economic vitality and diversification.<sup>61</sup>

## PERSISTENT RURAL HOUSING CHALLENGES

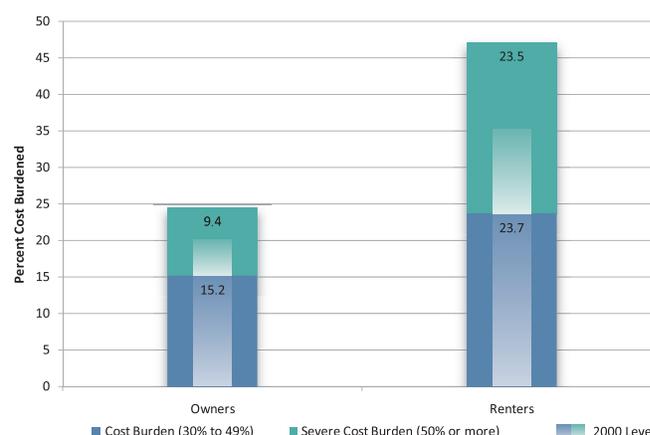
Much attention has been focused on housing after the mortgage crisis and a substantial number of rural households have experienced difficulties related to the foreclosure wave. Many rural Americans, however, especially low-income households, minorities, and persons in high-poverty areas, experienced housing distress long before 2008. Basic housing issues related to affordability, structural adequacy, and crowding are still problematic for millions of rural and small town households.

## HOUSING COSTS AND AFFORDABILITY

Housing affordability has become one of the nation's most significant housing challenges and it is especially problematic for low-income households and renters in rural areas nationwide. Housing costs tend to be lower in rural areas than in suburbs and cities. The national median monthly rent is \$756, while the median rent in rural and small town areas is one-third less, at \$487. Similarly, monthly owner costs are a full 40 percent lower in rural areas than at the national level. The lower owner housing costs in rural areas are in part due to the fact that a relatively large share of rural homeowners own their homes “free and clear” and have lower monthly costs than those with a mortgage.

### HOUSING AFFORDABILITY IS AN INCREASING PROBLEM, ESPECIALLY FOR RURAL RENTERS

#### Rural & Small Town Housing Cost Burden by Tenure, 2010



Source: HAC Tabulations of 2006-2010 American Community Survey (ACS), 2000 Census of Population and Housing – SF-3

Figure 27

Despite the lower costs in rural areas, an increasing number of rural households find it challenging to pay their monthly housing expenses. Over 7 million rural households – three in ten – pay more than 30 percent of their monthly incomes toward housing costs and are considered cost burdened. The incidence of rural households experiencing affordability problems increased by a full six percentage points between 2000 and 2010. More than 2.9 million of these rural cost-burdened households pay more than half their incomes for housing costs.

Housing affordability problems are especially problematic for rural renters. A full 47 percent of rural renters are cost burdened, and nearly half of them are paying more than 50 percent of their monthly incomes for housing. Almost 40 percent of all cost-burdened rural households are renters – a much higher proportion than the 28 percent of all rural households who rent their homes. Still, the majority of rural cost-burdened households (4.4 million) are homeowners.

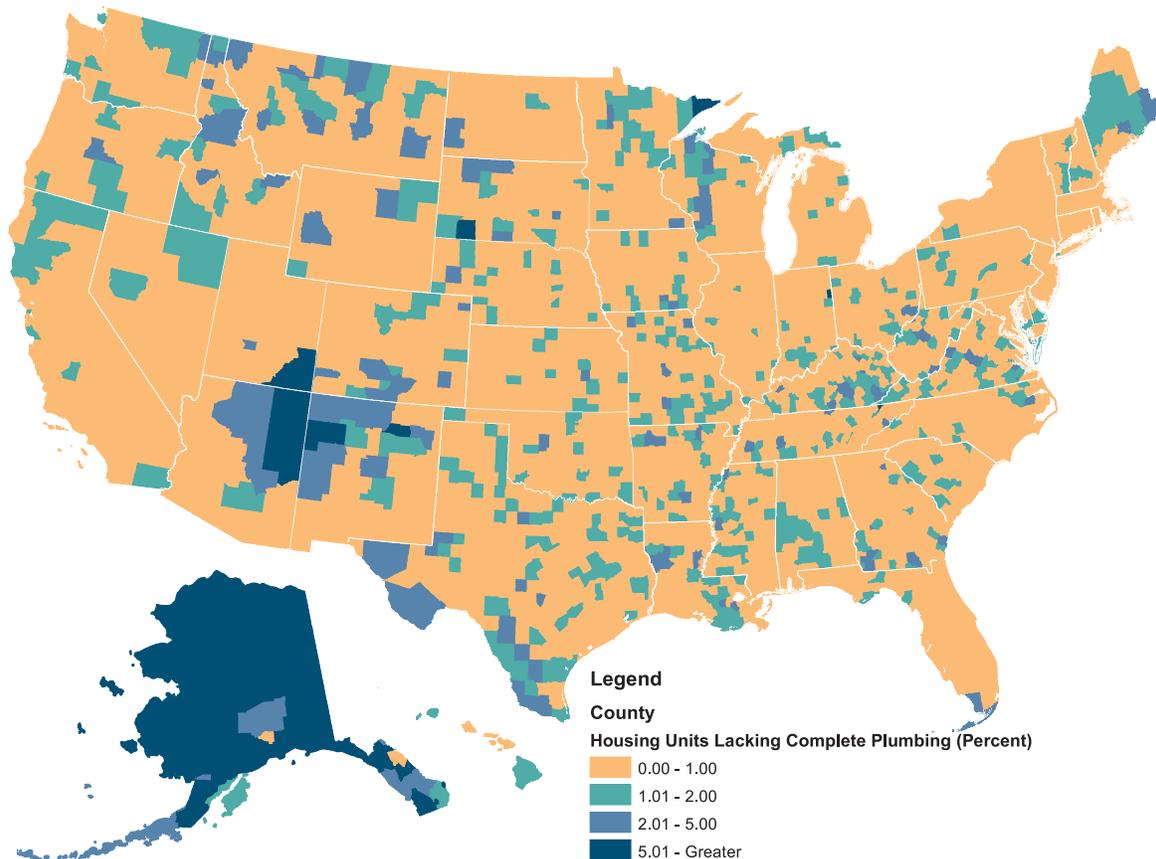
Certain areas and communities suffer particularly high housing cost burdens. Rural housing costs tend to be lowest in the South and Midwest regions. In contrast, rural housing affordability problems are more prevalent in the Northeast and on the West Coast, especially in California. Not surprisingly, high-cost rural areas, especially those with natural amenities, tend to experience

a high level of affordability problems. Natural amenities in a rural community draw upper-income residents from suburban or urban areas. These areas also often have recreational industries which offer lower-wage service work. These diverse new residents frequently compete with each other for scarce housing resources and press housing prices upward to levels that low-wage workers often have difficulty meeting.<sup>62</sup>

The affordability crisis is a multi-dimensional problem. While housing costs are relatively low in rural areas, incomes are also lower, so that many residents still cannot afford housing. Housing affordability figures indicate that household incomes in recent years have not kept pace with housing prices and expenditures. Not only are more people paying proportionally more for their housing but, as they contribute more

THERE HAVE BEEN SUBSTANTIAL IMPROVEMENTS IN RURAL HOUSING QUALITY OVER THE PAST SEVERAL DECADES. BUT TOO MANY RURAL HOMES STILL LACK THE MOST BASIC AMENITIES

Lacking Complete Plumbing Facilities, 2010



Source:  
HAC Tabulations of 2006-2010 American Community Survey (ACS)

Figure 28

of their funds to housing costs, they have less money for other expenditures. This constrained spending is a further drag on an already stagnant economy.

## SUBSTANDARD HOUSING

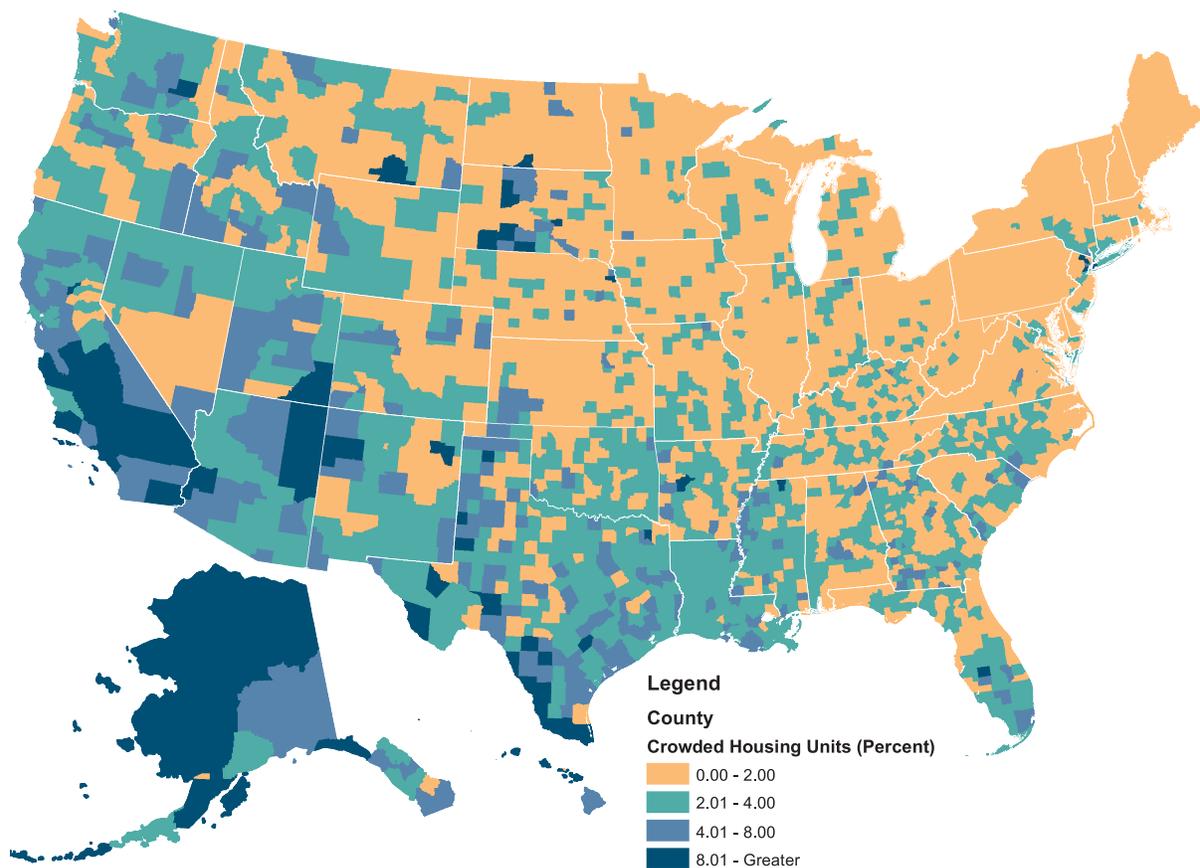
While affordability problems are on the rise, it is sometimes presumed that substandard and dilapidated homes have largely vanished in the United States. Indeed, efforts to improve housing conditions have resulted in dramatic

gains and most Americans currently live in high quality, safe, and decent housing. Substandard housing, however, has not entirely disappeared. According to 2009 American Housing Survey indicators of housing adequacy, 1.5 million or 5.8 percent of homes outside metropolitan areas<sup>x</sup> are either moderately or severely substandard,<sup>xi</sup> a proportion slightly higher than the national rate.

Minorities in rural areas are among the poorest and worst-housed groups in the entire nation, with disproportionately high levels of inadequate housing condi-

## HOUSEHOLD CROWDING IS MORE PREVALENT AMONG SOME RURAL GROUPS AND COMMUNITIES THAN OTHERS

Household Crowding, 2010



\*Crowding is defined as a housing unit with more than one occupant per room.

Source:  
 HAC Tabulations of 2006-2010 American Community Survey (ACS)

Figure 29

<sup>x</sup> The figures on substandard housing derive from HAC tabulations of the 2009 American Housing Survey (AHS) and, because of data limitations, refer to households outside metropolitan areas, not rural and small town areas as used primarily in this study.

<sup>xi</sup> The American Housing Survey (AHS) defines physical housing problems based on the instance and severity of conditions related to surveyed units' plumbing, heating, electric, upkeep, and hallways.

tions. Outside metropolitan areas, minority households are twice as likely to live in substandard housing as white, non-Hispanic residents.<sup>63</sup> African American-headed households living outside metropolitan areas are three times more likely to live in substandard housing than are households of all races.<sup>64</sup>

Among the most basic housing-quality indicators is access to running water and working plumbing facilities. In 1970, more than 3.5 million housing units were without complete plumbing facilities in the United States.<sup>65</sup> In 2010, just over 600,000 units, less than 1 percent of occupied homes, did not have complete plumbing. At the same time, more than 30 percent of homes lacking hot and cold piped water are in rural and small town communities. In some rural communities, especially on Native American lands and in Alaska, the incidence of homes lacking basic plumbing is more than 10 times the national level.

## CROWDING

Crowded homes, defined as those with more than one occupant per room, are slightly less common in rural regions and small towns than in the nation as a whole. There are more than 580,000 crowded housing units in rural and small town areas, a rate of approximately 2.4 percent, compared to 3.1 percent nationally. Urban areas have a higher percentage of crowded homes (5.9 percent) than both rural and suburban communities.

Household crowding is more prevalent among some rural groups and communities than others. On Native American lands, 8.8 percent of homes are crowded. Crowding rates for Hispanic households are three times the overall rural rate, and Hispanics occupy over 30 percent of crowded housing units in rural and small town areas.

The effects of crowded housing conditions can exacerbate substandard living conditions and health problems. Social issues in-

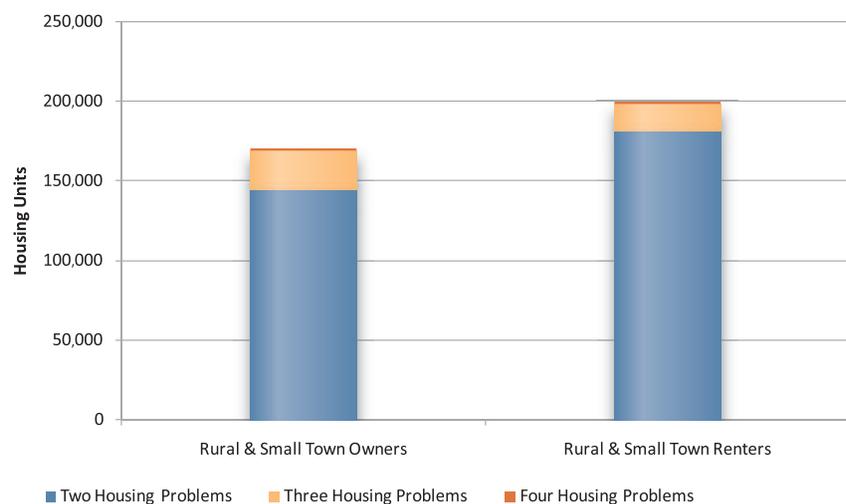
cluding lower educational attainment, substance abuse, domestic violence, and child abuse and neglect can be influenced by crowded housing conditions.<sup>66</sup> Diseases that stem from crowded conditions include increased incidences of tuberculosis, pneumonia, gastrointestinal disorders, head lice, conjunctivitis, and hepatitis, among others.<sup>67</sup> Household crowding in rural areas is often an invisible form of homelessness as some rural households “double up” with friends or relatives in reaction to adverse economic or social situations, or to escape substandard housing conditions.

## MULTIPLE HOUSING PROBLEMS

Housing affordability problems, quality deficiencies, and crowding may exist in conjunction with one another. Nearly 30 percent of rural and small town households live in homes with major housing issues. Over 7.3 million rural households have at least one major problem, most often housing affordability. Another 370,000 rural households have two or more housing problems. These households with multiple housing problems almost always experience cost burden in combination with either substandard or crowded conditions. Rural renters are disproportionately represented not only among households with

### MORE THAN HALF OF ALL RURAL HOUSEHOLDS WITH MULTIPLE HOUSING PROBLEMS ARE RENTERS

Multiple Housing Problems – Rural & Small Town Areas, 2010



Source:  
HAC Tabulations of 2006-2010 American Community Survey

Figure 30

problems, but in particular among households with multiple problems. Over half of rural and small town households with multiple problems of cost, quality, or crowding are renters.

## RURAL HOMELESSNESS

Homelessness is widely viewed as an urban problem, but rural individuals and families also experience both literal homelessness and extremely precarious housing situations.<sup>68</sup> According to National Alliance to End Homelessness estimates, over 47,000 persons, or approximately 7 percent of the nation's homeless population, live in rural<sup>xii</sup> or mostly rural counties.<sup>69</sup> In fact, two of the three Continuums of Care with the highest rates of homelessness are found in rural counties.<sup>70</sup> Rural homelessness may be simply less visible, as rural homeless people do not usually sleep in visible spaces, and emergency shelters may not exist in rural places.<sup>71</sup> It is also common for rural homeless individuals to live in their cars or campers.

Literal homelessness, the condition of living on the street or in a shelter, is often episodic and is less common in rural areas than in cities due to kinship networks and a lack of service providers and resources. It is much more common for rural homeless people to double or triple up with friends or relatives or live in structures not built for habitation, like garages and barns, as rural areas often lack shelters and other homeless assistance programs.<sup>72</sup> Homeless individuals in rural areas typically experience precarious housing conditions, moving from one extremely substandard, overcrowded, or cost-burdened housing situation to another. Previously, individuals housed in these unstable situations, did not meet the definition of homelessness used by some federal agencies to determine eligibility for government assistance programs. However, this has changed with the passing of the HEARTH Act.<sup>73</sup>

The difficulty of enumerating and identifying rural homeless populations leads to challenges in quantifying need, ultimately hindering policy creation, funding, and attention for this problem. Support services for the homeless are often unavailable in rural areas due to isolation, lack of awareness, and lack of resources.

## PUBLIC INVESTMENT IN RURAL HOUSING

The federal government has had a role in affordable housing for low- and moderate-income households for over 80 years. Landmark legislation such as the 1937 Housing Act, the Housing Act of 1949, and the Cranston-Gonzalez 1990 National Affordable Housing Act authorized federal assistance that has directly improved the housing conditions and lives of millions of low-income rural Americans. Today the federal government's involvement in affordable housing is a complex patchwork of grants, loans, loan guarantees, subsidies, and tax incentives.

Federal housing programs that reach rural communities are administered through HUD, USDA's Rural Housing Service (RHS), state agencies, and others. HUD is the dominant source of federal funding for low- and moderate-income housing, while USDA programs target rural housing needs specifically. The structure and delivery of federal housing investment in rural communities are often distinct from those in suburban or urban markets. Large cities and population areas receive direct entitlements through grant programs such as the HOME Investment Partnerships program and the Community Development Block Grant, whereas most rural places must compete with others for these funds.

Precise figures are difficult to obtain, but it is estimated that federal funding either directly or indirectly supports more than 6 million units of affordable housing in the United States. These programs are oversubscribed, however, as only about one-quarter of the low-income households eligible for housing programs actually receive any assistance.<sup>74</sup>

A substantial portion of federal assistance is for rental housing. Although they represent a generally small component of the rural stock, federally assisted rental homes and units are among the highest quality rental properties in many rural communities. These resources also provide housing to some of the most vulnerable and low-income individuals in the country. For example, the average annual income of residents in USDA Section 515 rural rental housing properties is just \$11,337, and approximately 60 percent of these households are either elderly or disabled.<sup>75</sup>

<sup>xii</sup> The figures on homelessness derive from National Alliance to End Homelessness estimates. Because of data limitations, these estimates refer to population outside metropolitan areas, or in metropolitan areas with no urbanized population, not rural and small town areas as used primarily in this study.

Funding and investment in affordable housing continues to shrink. Federal rural housing programs have gone through many changes and experienced drastic budget cuts in recent years. Additionally, rental assistance comprises ever larger portions of both HUD and USDA budgets. The increasing cost of housing limits how far these dollars can go.

Despite their demonstrated success, many federal housing programs are under financial pressure and continue to change. As an example, USDA's Section 502 homeownership loan program has experienced a dramatic shift away from direct lending in favor of loan guarantees. In fiscal year 2012, approximately 96 percent of the value of Section 502 was obligated under the guaranteed program. Over 145,000 homeownership loans were guaranteed, totaling \$19.2 billion. In contrast, 7,918 direct homeownership loans were made, totaling \$900 million.<sup>76</sup> The increased

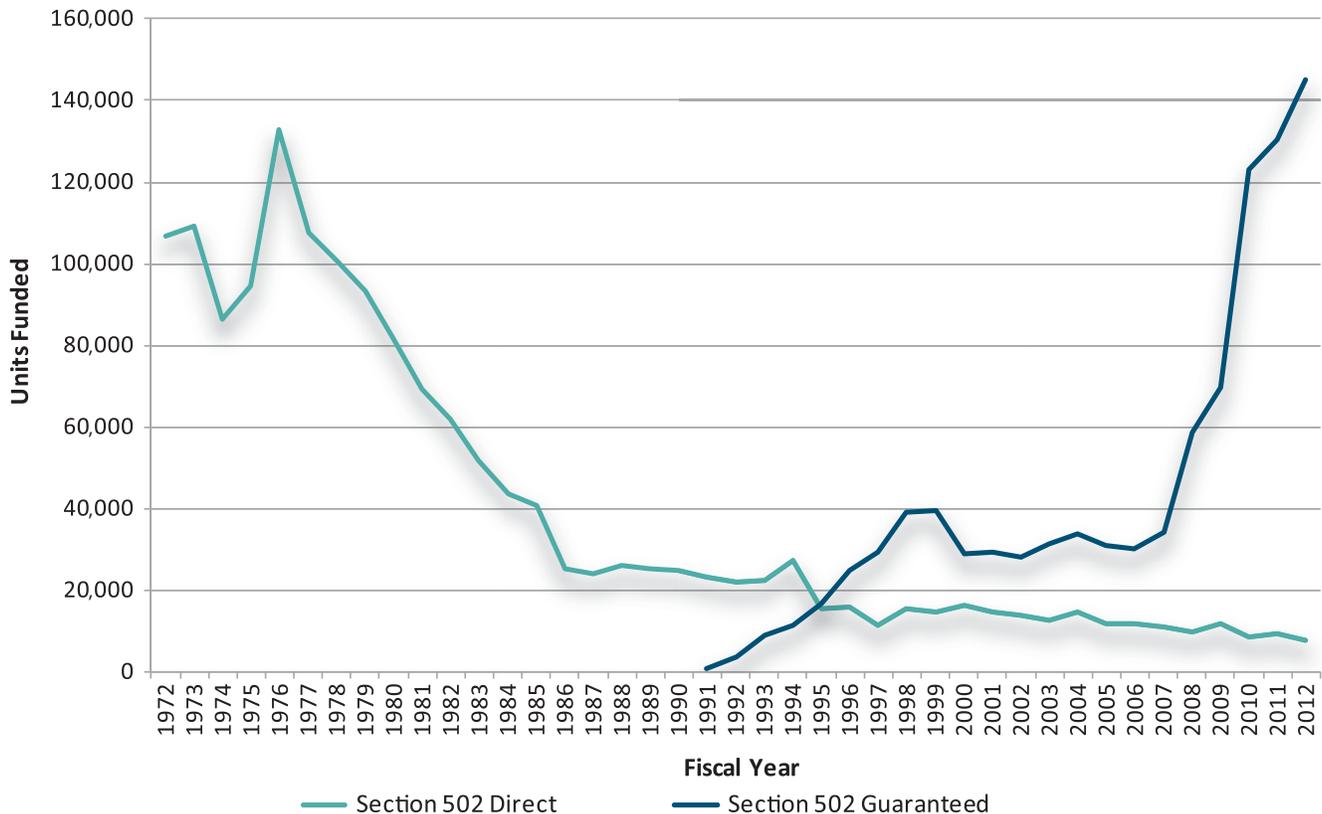
demand for Section 502 loan guarantees is in part attributable to the disappearance of subprime mortgage lending in private markets. In some states, these USDA-backed loans are among the only nonprime lending products. Reductions in direct lending have serious implications for lower income applicants, however, as the Section 502 direct program serves households with substantially lower incomes than USDA's guaranteed lending program. In fiscal year 2011 the average household income for direct Section 502 borrowers was \$27,053, compared to \$50,571 for households receiving Section 502 loan guarantees.<sup>77</sup>

### LOOKING TO THE FUTURE

One constant resource to address rural housing challenges has been local nonprofit housing organizations across the nation. Some organizations administer

#### LOAN GUARANTEES CONTINUE TO COMPRISE A LARGER SHARE OF USDA RURAL HOMEOWNERSHIP ASSISTANCE

USDA Section 502 Homeownership Loan Activity, FY 1972 – FY 2012



Source: HAC Tabulations of USDA Obligation Report Data

Figure 31

statewide or even regional development plans, while others serve single communities. In many instances, these local nonprofit organizations are the only entities providing affordable housing for low-income people in their communities. Rural housing developers often face difficult problems that may not be as prevalent in urban areas, such as inadequate or non-existent water and sewer systems, a shortage of financial institutions, and limited access to labor markets and construction materials. Despite these limitations, community-based organizations are the catalysts that transform public and private funding into affordable homes.

There are still far too many housing problems in rural America, but the basic quality of rural housing has largely improved over the past few decades. There has been a precipitous decline in the most egregious

housing inadequacies such as dilapidated homes and outhouses. The reasons for this progress are varied. But relatively modest federal investment has directly improved the housing conditions for millions of rural Americans. Recognizing this progress is important as new and more complicated constraints of affordability and housing distress have emerged. If anything, the past decade has taught us the importance of housing to our nation's economy, communities, and families. The nation's fiscal outlook is complicated, but public sector investment and involvement are crucial to healing our housing markets and ensuring their long-term health while recognizing that all communities, rural and urban, need attention and investment.



