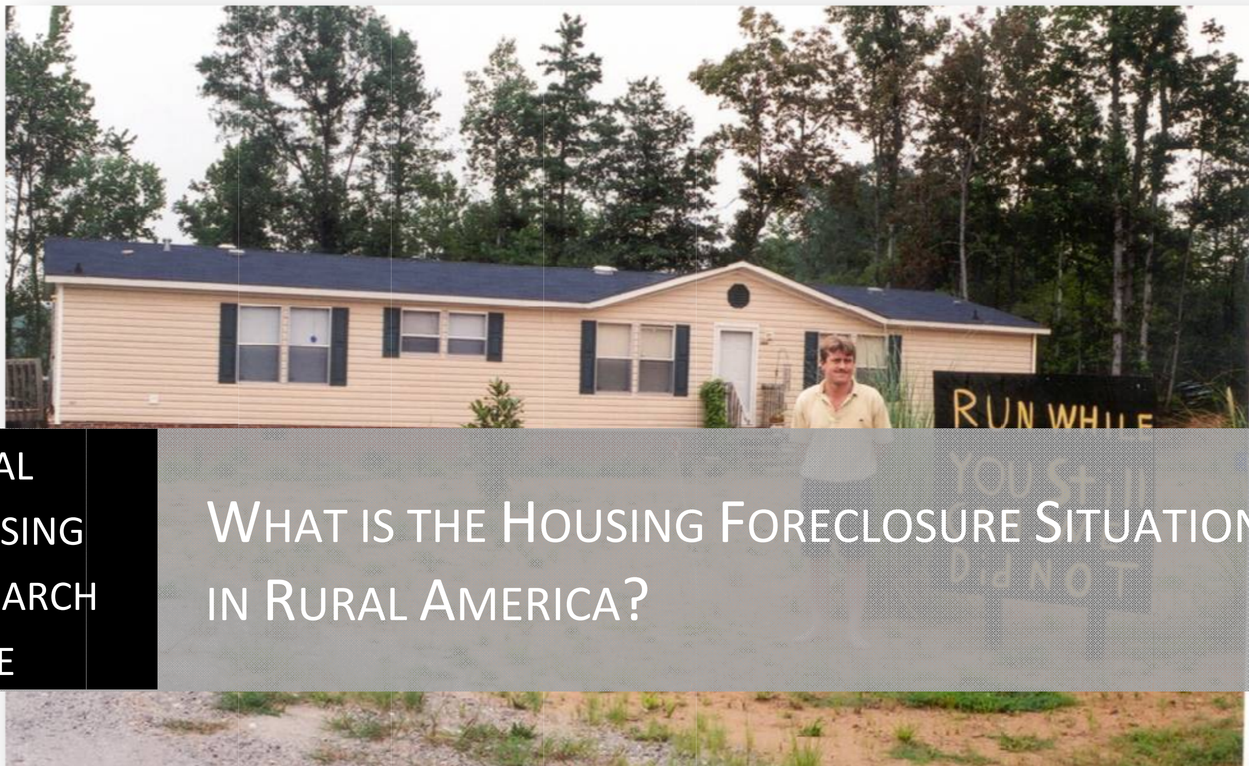
Rural Housing Research Note



What is the Housing Foreclosure Situation in Rural America?

Housing Assistance Council

October 2009

Housing Assistance Council
1025 Vermont Avenue, N.W.
Suite 606
Washington, DC 20005
202-842-8600 (voice)
202-347-3441 (fax)
hac@ruralhome.org
http://www.ruralhome.org

This analysis was prepared by Lance George and Leslie Strauss of the Housing Assistance Council (HAC). HAC is solely responsible for the accuracy of the statements and interpretations contained in this publication.

HAC, founded in 1971, is a nonprofit corporation that supports affordable housing efforts in rural areas of the United States. HAC provides technical housing services, loans from a revolving fund, housing program and policy assistance, research and demonstration projects, and training and information services. HAC is an equal opportunity lender.

SUMMARY

Our nation is experiencing one of the most extensive and painful economic crises of an entire generation. Housing markets are believed to be at the heart of the crisis, and millions of American households are having trouble meeting their mortgage payments and facing foreclosure or eviction. Rural America has been impacted by the housing crisis, but it is difficult to determine the extent of foreclosures in rural communities. To better understand the scope and severity of the foreclosure problem in rural areas, The Housing Assistance Council (HAC) compiled and analyzed several private and public sources of information on housing distress. Below are highlights of the findings from this brief investigation.

The Rural Foreclosure Rate is Murky. A definitive estimate of the number of rural households experiencing housing foreclosure cannot be specified at this time. Estimates on the number of foreclosures in rural areas varied widely among the data sources consulted. Differences in the scope and methodology of data collection contribute to the incongruence in rural foreclosure rates. Additionally, several data sources simply do not provide data for rural communities.

Rural America is Not a Uniform Place. Assessing the level of rural foreclosure and housing distress is complicated by many factors including geography, location, and residence. Contrary to popular belief, rural housing markets are more dynamic and diverse than may be perceived. The United States is a large country that encompasses a multitude of markets and economic conditions. While only 20 percent of households live in rural areas, they are spread across 80 percent of the nation's land mass.

Rural Mortgage Markets are Not Uniform Either. In rural parts of the United States, there are a host of issues and concerns with mortgage access and availability. Quality credit and affordable mortgage sources are often more difficult to obtain in rural areas than in cities or suburbs. The smaller size and remoteness of many rural communities tend to raise costs for lenders which have fewer competitors than urban markets. In addition, subprime and high cost loans continue to significantly influence rural mortgage markets.

The Housing Price Roller Coaster Was Less Dramatic in Rural Areas. Home prices have been widely linked as a contributing factor to the national housing crisis. Unprecedented home price increases, followed by equally precipitous price declines, have produced unstable and depressed housing markets. Yet there is some indication that this boom and bust cycle for housing prices was not as profound in rural America. Many rural areas experienced housing price increases over the past few years; however, these increases were not as dramatic as their metropolitan counterparts.

There are Special Considerations in Rural Areas. Some aspects of rural housing markets are different than the nation as a whole. Most foreclosure estimates omit loans for manufactured housing based on the nature of their financing. Likewise, federally funded affordable loan programs are not accounted for in most foreclosure reporting. Both these sectors are important to rural households, especially those with low and moderate incomes.

Rural Places Need Help Getting Out of This Mess. At a minimum, it can be safely estimated that hundreds of thousands of rural households are dealing with foreclosure or serious housing distress. The report puts forth recommendations to improve reporting of housing foreclosure

and loan delinquency in rural areas, assist rural homeowners facing mortgage foreclosure and delinquency, and shore up the fundamentals of our housing system to provide sound markets.

BACKGROUND

Not long ago, housing was the centerpiece of our nation's strong and growing economy. Today, the mortgage foreclosure crisis is devastating financial markets, local communities, and individual homeowners across the nation. Rural America has not escaped from this situation unscathed. Yet more than a year into the housing crisis, it is difficult to determine the extent and scope of housing foreclosures and loan delinquency in rural areas. The diversity of rural mortgage markets, combined with an inability to access quality and accurate data, are ongoing challenges to understanding and addressing the mortgage default and foreclosure problem in rural America. The Housing Assistance Council (HAC) investigated various sources of information, along with associated housing factors, to better understand the scope and severity of the foreclosure problem in rural areas.

Rural America: More Diverse Than You May Think

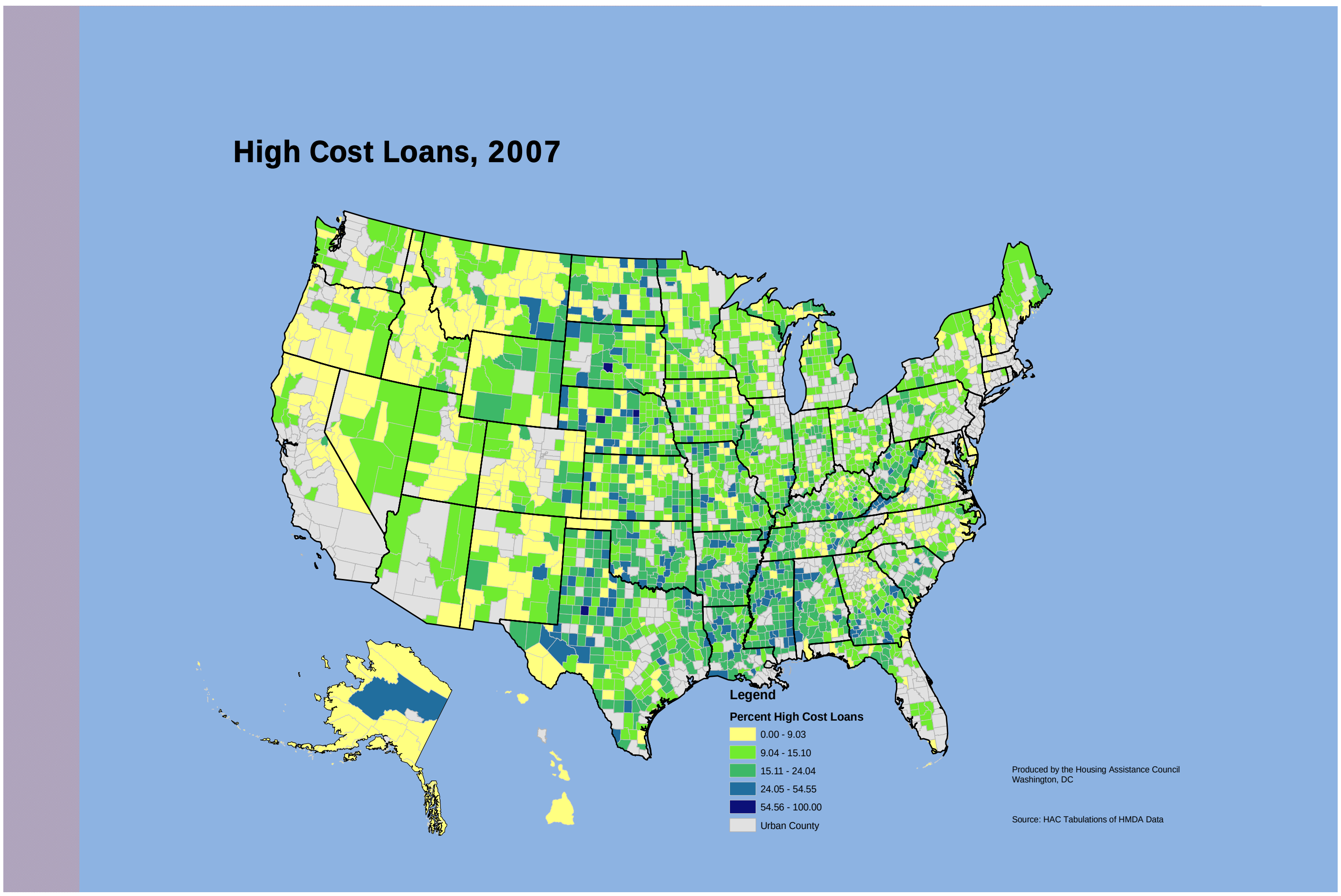
Foreclosure activity has not been as well discussed or exposed in rural areas as conditions in cities and urban areas. This lack of investigation into rural mortgage markets is in part attributable to the dearth of quality information from which to assess the situation. The diversity of rural housing markets, along with the vast rural landscape itself, contributes to this lack of understanding. The United States is a very large country that encompasses many markets with varying economic conditions. Assessing the level of foreclosure and housing distress is complicated by several factors including geography, location, and residence.

Rural mortgage markets are more dynamic and diverse than may be perceived. Rural America is generally considered much more homogenous and less diverse than urban America. In some respects this is true; there is less racial diversity, and a smaller range of industrial and economic diversification in rural areas. However, the sheer size and scope of rural America belies this simplistic notion. While roughly one-fifth of housing units are located in rural areas, they are situated across more than 80 percent of the nation's land mass. Viewed in this context, rural housing dynamics may actually be more diverse than urban areas on the whole. There are roughly 360 metropolitan areas that have been largely influenced by uniformity in the urban corporate and financial systems. In contrast, there are over 2,000 nonmetropolitan counties covering a land mass roughly the size of Australia. These disparate communities often have their own distinct cultural, social, and economic patterns.

The High Cost of Borrowing in Rural America

Limited access to quality credit and affordable mortgage financing is a significant factor impacting the performance of rural mortgages. Rural areas generally have fewer financial institutions than urban markets, resulting in less competition and increased costs to consumers. The recent proliferation of subprime lending has also greatly influenced rural mortgage markets. The growth of subprime and low down payment lending has allowed many low-income households to achieve homeownership. However, a significant number of these loans were made on thin equity cushions and blemished credit records (Belsky 2001). The economic crisis, with record job losses, has spelled disaster for many homeowners with subprime credit.

Subprime loans tend to have higher interest rates and shorter terms than 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 and, while statistically reliable data are unavailable, there is evidence to suggest that subprime lending was abundant in rural areas over the past few years. As defined by the 2007 Home Mortgage Disclosure Act (HMDA), [1] "high cost" mortgages are those loans with an interest rate at least 3 percentage points for first lien loans (and 5 percent for secondary lien loans) higher than Treasury securities of comparable maturity (FFIEC 2007). In 2007, approximately 737,000, or 16 percent of all home purchase originations in the United States, were classified as high cost. In rural areas, approximately 17 percent of all home purchase originations were high cost loans, accounting for 11 percent of all high cost loans nationwide. Rural minorities have disproportionate levels of high cost loans. Approximately 27 percent of rural minorities with HMDA reported home purchase originations had high cost loans compared to 17 percent for white non-Hispanics. The level of high cost lending also increases for low-income rural borrowers. Approximately 36 percent of rural home purchase originations reported by HMDA were high cost for households with incomes below $25,000. In contrast, only 12 percent of rural households with incomes above $100,000 had high cost loans.

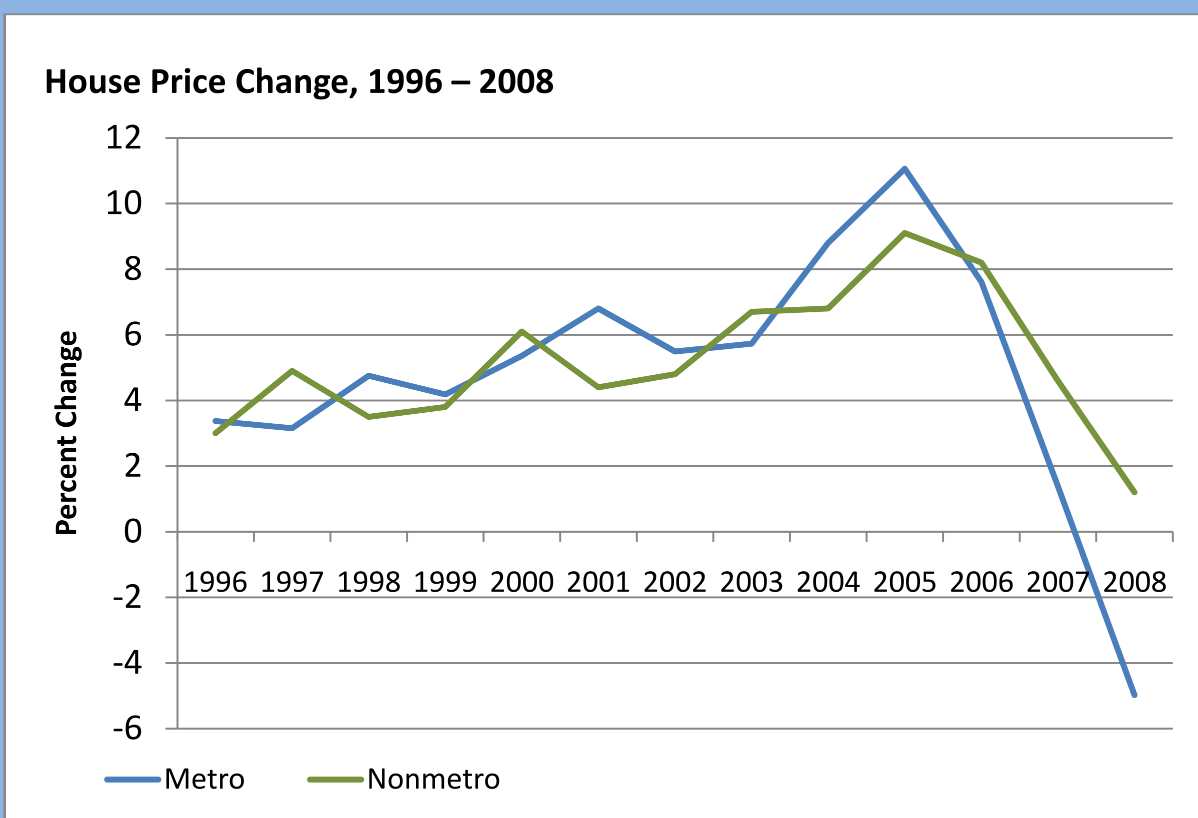


[1] While HMDA data are a critical resource to understanding lending trends, there are limitations to these data, especially for rural areas. Only depository institutions with assets of $37 million or more that are headquartered in a metropolitan area were required to report lending activity under HMDA in 2007. Consequently, an undetermined number of rural lending data are not available as many small, rural financial institutions are not required to report lending information.

The prevalence of nonprime lending in rural America has also been exacerbated by predatory lending practices that have been implemented by some sub-prime lenders. According to the National Community Reinvestment Coalition, predatory loans are those that 1) charge more in interest and fees than covers the associated risk 2) contain abusive terms and conditions 3) do not take into account the borrower's ability to repay, and/or 4) target women, minorities, and communities of color (NCRC 20029). These predatory practices significantly increase costs and strip equity from borrowers, and have been a factor linked to the wider mortgage crisis.

The Housing Price Roller Coaster

One factor widely linked to the national housing crisis was housing price fluctuation. 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 nation. Real housing prices have dropped to 1990s levels in some metropolitan markets (Harvard 2009). 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 rural homes did in fact experience price increases over the past few years; however, these gains were not as dramatic as their metropolitan counterparts. Subsequently, rural areas have not witnessed price declines as precipitous as those in urban locales (Wilkerson 2008). According to recent FHFA price index data, rural home prices increased by 1 percentage point from 2007 to 2008, compared to a 5 percentage point decline for metro areas in the same time period (FHFA 2008).



Source: HAC Tabulations of Federal Housing Finance Administration Data

WHAT IS THE RURAL FORECLOSURE RATE? A LOOK AT THE DATA

There are varying sources and estimates of housing foreclosures across the United States. Many of these estimates utilize differing data collection methodologies and processes (Kan 2008). Some data collectors use public records, while others rely on internal business and loan level information. Yet other sources compile indirect and external factors to craft their foreclosure estimates. Whatever the source, data collection methods used in developing foreclosure estimates are labor intensive and subject to error (Bialik 2008). While most of these information sources generally agree that foreclosures have been on the rise, the scope, magnitude, and location of foreclosure estimates vary substantially by reporter. For example, one source of privately collected data reported 500 foreclosures for the state of West Virginia in 2007, while another source estimated over 12,000 foreclosures in the state since the beginning of 2007 (Finn 2009). Which estimate is correct?

West Virginia is a predominately rural state, and this statistical discrepancy demonstrates how coverage and quality associated with foreclosure reporting is particularly problematic for lesser populated and rural communities. To help assess the quality and availability of foreclosure data for rural communities, HAC analyzed five prominent data sources that have been utilized to present foreclosure estimates over the past few years.[2] The data sources reviewed are from private, nonprofit, and wholly public or government entities. This Research Note investigates the quality and utility of these data to inform the foreclosure situation, with a particular emphasis on their efficacy in rural areas.

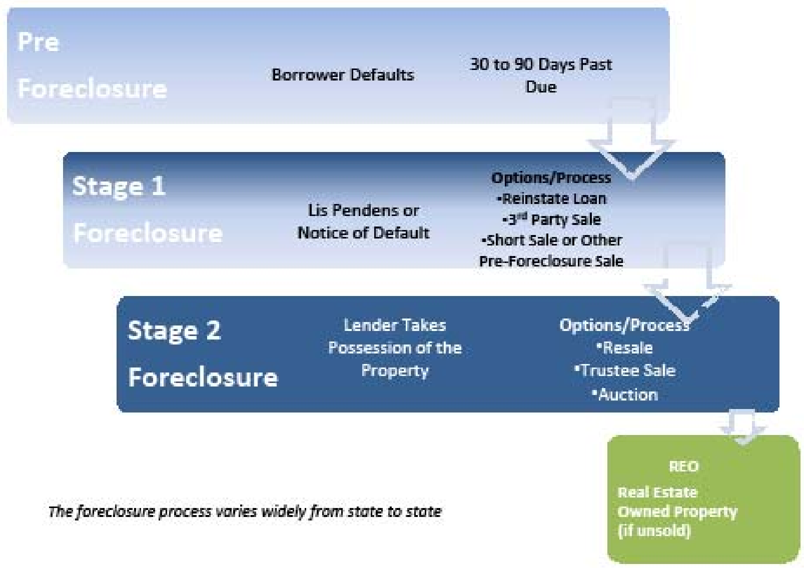
The Foreclosure Process

Foreclosure is a legal and real estate process in which a lender recovers the amount owed on a defaulted loan. Default is a breach of loan terms in a mortgage contract, and is usually associated with missed payments (Chen 2008). There are generally two major processes or "stages" of foreclosure. Stage 1 of the foreclosure process is when a lender presents the borrower with a default notice, sometimes referred to as a "lis pendens" filing. At this point the borrower is approaching repossession, but still may avoid foreclosure though payment, a loan "work-out," or pre-foreclosure sale. In stage 2, the bank or lender actually takes possession of the property and the borrower no longer owns the home (Chen 2008). After stage 2, the lender may proceed through an array of options in reselling the foreclosed property.

This is a simplistic summation of the foreclosure process, and it is important to note that property laws differ significantly by state. The exact process, time, and costs associated with the foreclosure of a home vary widely from jurisdiction to jurisdiction. The wide variation in laws and procedures also impacts the reporting and assessment of a nationwide foreclosure estimate.

[2] The data sources presented do not comprise an exhaustive list of foreclosure information sources. Yet they provide an example of some more commonly consulted resources on foreclosure analysis.

The Foreclosure Process

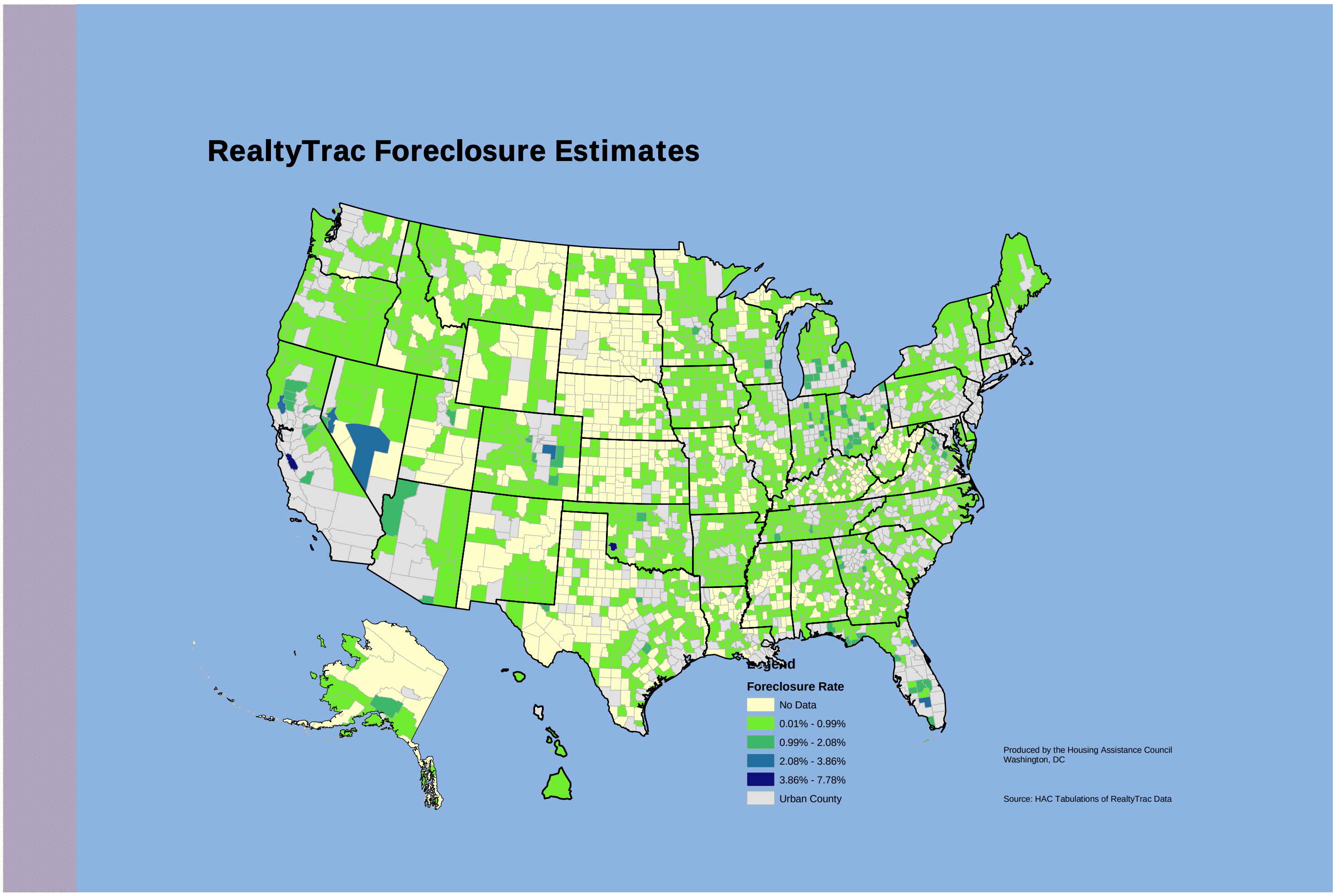


RealtyTrac

RealtyTrac is one of the more familiar and commonly quoted sources of foreclosure estimates presented in the popular press. This California web-based company collects and processes home sales and the listings of foreclosure data. RealtyTrac provides information to investors, industry and real estate professionals, and consumers buying and selling properties (Kan 2008). The company provides data listings and reporting at various levels of geography including the county level.

RealtyTrac presents data for approximately 2,200 counties across the United States. This excludes roughly 900 counties, most of which are predominately rural. RealtyTrac does not openly disclose its methodology for data collection; however, company representatives indicated that they generally do not collect data for a county if it has less than 10,000 housing units(RealtyTrac 2008a). The company has reportedly improved its quality control measures; however, duplicate and multiple counting of foreclosure entries is a particular concern when citing RealtyTrac data (Galvin 2007). Limitations related to over-representation in some areas (namely urban), and under-representation in others (primarily rural), indicate substantial concern when trying to derive rural foreclosure estimates from RealtyTrac data.

In June 2008, RealtyTrac reported approximately 1.5 million home loans in foreclosure. Of these, RealtyTrac identified 76,369 homes in rural areas in the foreclosure process. Overall, rural foreclosures represented 5 percent of the national estimate put forth by RealtyTrac, and foreclosures accounted for 0.3 percent of all housing units in rural areas (Realty Trac, HAC 2008b).[3]



Loan Performance

Loan Performance is a data cooperative for the mortgage industry, and is commonly utilized by industry professionals and market investors (Kan 2008). Members of the cooperative submit and access data that have been processed by Loan Performance. It is estimated that Loan Performance data capture roughly 80 percent of first lien mortgages and nearly all securitized loans (Kan 2008). While the company's data are extensive and rigorously controlled for quality, Loan Performance does not make the data widely available to the

[3] RealtyTrac calculates its total foreclosure rate by the ratio of loans in foreclosure to an estimate of all occupied housing units, not the number of mortgages.

public. As Loan Performance data were not available for this analysis, no assessment on rural specific foreclosure estimates can be gleaned from this source.

Mortgage Bankers Association

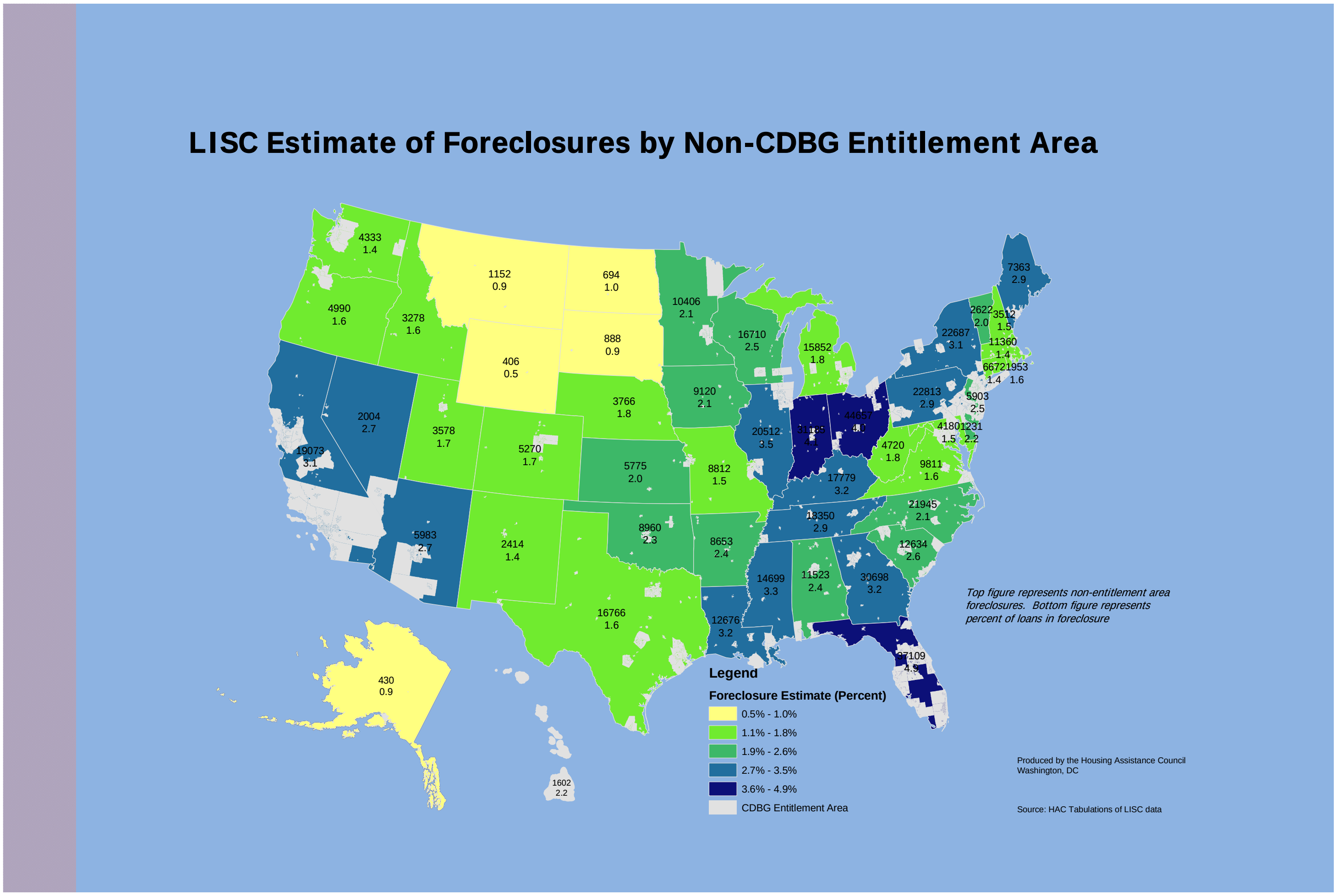
The Mortgage Bankers Association (MBA) is a trade association representing the real estate finance industry. The MBA estimates foreclosures through its National Delinquency Survey, which is a survey of over 120 member servicers who submit delinquency and foreclosures estimates on a quarterly basis. The National Delinquency Survey is a longstanding indicator of mortgage delinquency and has been providing information on foreclosures for several decades. The Mortgage Bankers estimate that they capture approximately 85 percent of outstanding first lien mortgages with the National Delinquency Survey (Kan 2008). MBA's Foreclosure data are available at the national, regional, and state level, however, the Mortgage Bankers Association does not publicly provide rural or nonmetropolitan estimates within its state reporting.

LISC Foreclosure Response

The Local Initiatives Support Corporation (LISC) is a national nonprofit community development and housing organization. LISC utilizes corporate, government, and philanthropic support to provide local community development organizations with loans and grants, policy support, and technical and management assistance. As part of its *Foreclosure Response.org* initiative, LISC researchers calculated foreclosure estimates and "needs score" for Community Development Block Grant (CDBG) entitlement areas and zip codes. LISC's figures are a composite estimate of loan activity from several public and private data sources.

From a one-time estimate in October 2008, LISC estimated approximately 1.7 million loans in foreclosure nationally. Of those, 540,905 (or 32 percent) were located in outside of CDBG entitlement communities (a proxy for rural areas) (LISC 2008). The overall foreclosure rate outside CDBG entitlement areas was 2.5 percent of mortgage loans. Additionally, LISC estimates that approximately 1.5 million loans outside of CDBG Entitlement Areas were more than 30 days delinquent. This was roughly 6.8 percent of loans in these areas. LISC also estimated 210,680 Real Estate Owned (REO) properties outside of CDBG Entitlement areas. REOs comprise approximately 1 percent of all loans in these areas (LISC 2008).

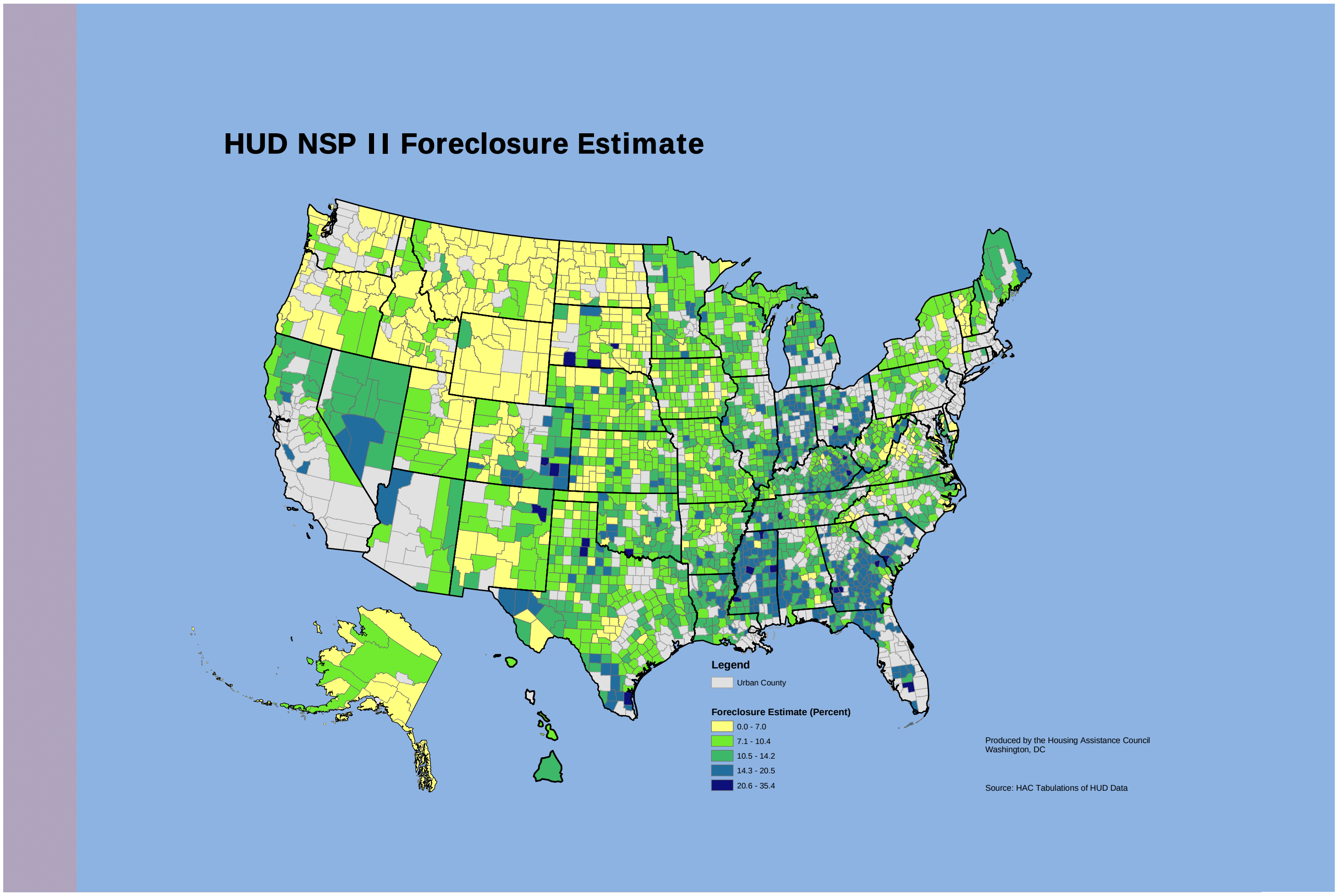
In addition to the CDBG level foreclosure estimates, LISC also provides the foreclosure needs score for nearly all ZIP codes in the United States. However, LISC is unable to provide loan and foreclosure counts at this level of geography because these estimates are based on proprietary data.



HUD NSP II Estimate

The Neighborhood Stabilization Program (NSP) is recently enacted federal legislation established for the purpose of stabilizing communities that have suffered from foreclosures and housing abandonment. NSP is administered by the US Department of Housing and Urban Development (HUD) and provides grants to address the problems associated with homes that have been foreclosed upon and are creating economic problems for their communities. The NSP requires states and local jurisdictions to allocate funding to areas (1) with the greatest percentage of home foreclosures, (2) the highest percentage of homes financed by subprime mortgage related loans, and (3) identified by the grantee as likely to face a significant rise in the rate of home foreclosures. To assist local jurisdictions in determining their foreclosure needs, HUD developed foreclosure estimates.

In developing these estimates, HUD asserts that there is no reliable foreclosure estimate for the nation as a whole. As such, the agency developed its own estimates for use in the program from various sources. HUD's foreclosure data do not reflect actual foreclosures, but instead utilize neighborhood characteristics that estimate foreclosures. These factors are associated with a high level of risk for foreclosures and use composite indicators such as high cost loans, falling home values, above average unemployment, and delinquency and foreclosure estimates from an array of data sources. Foreclosure estimates from HUD's composite methodology were compared to data from private sources and further modified on the basis of these private estimates.



Using the compiled NSP data, HUD estimates that 5.3 million mortgages started the foreclosure process or were seriously delinquent over the past two years. This figure accounts for roughly 10.8 percent of all active mortgages. HUD's figure for foreclosure and delinquency in rural areas is roughly the same at 10 percent, or 738,000 rural mortgages in this time period (HUD 2009).

HUD's foreclosure and vacancy estimates also vary somewhat geographically as foreclosure and delinquency rates appear to be higher in rural counties in the South, Midwest, and areas with high poverty in general. HUD's methodology for estimating foreclosure and delinquency incorporates several social and economic indicators in addition to mortgage and finance figures which may account for higher estimates that in other areas.

Foreclosure Data Sources				
Data Source	**Measurement /Indicator**	**Availability**	**Geography**	**Rural Coverage**
RealtyTrac	Foreclosure Filings	For Purchase, Monthly	Zip, City, County	Data for Most Nonmetropolitan Counties
Loan Performance	Foreclosure & Delinquency Rates	Monthly, Not Widely Available	Zip, City, County	Data for Most Nonmetropolitan Counties
Mortgage Bankers Association	Foreclosure & Delinquency Rates	Quarterly, Published Reports for Non-Members	State, Region, Nation	Not Available
LISC Foreclosure Response	Foreclosure Rate, Delinquency Rate, & Risk Score	One–time estimate, Available on line	Zip, CDBG Entitlement Area, MSA, State	CDBG Non-Entitlement Areas (Rural Proxy)
HUD NSP II	Composite Foreclosure Rate, Delinquency Rate, & Risk Score	One-Time Estimate (Two Year Time Period) Available Online	County, State, Nation	Data for All Nonmetropolitan Counties

Foreclosure Estimates						
Data Source	**Date/Time Period**	**Total Loans in Foreclosure**	**% Foreclosure**	**Rural Loans in Foreclosure**	**% Rural Foreclosure**	**Rural % of Total**
RealtyTrac	June 2008	1,539,166 loans	1.2%* **calculated as a percent of all households*	76,369 Loans	.3%* **calculated as a percent of all households*	5.0%
Loan Performance	N/A	N/A	N/A	N/A	N/A	N/A
Mortgage Bankers Association	March 2009 (First Quarter 09)	N/A	3.9%	N/A	N/A	N/A
LISC Foreclosure Response	October 2008	1,603,356 loans	2.9%	540,905 Loans** ***outside CDBG entitlement area*	2.5%** ***outside CDBG entitlement area*	33.7%
HUD NSP II	May 2007 – May 2009 (Cumulative Two Year Estimate)	5,261,749 loans*** ****includes delinquency and foreclosure*	10.8%	737,728 Loans*** ****includes delinquency and foreclosure*	10.0%*** ****includes delinquency and foreclosure*	14.0%

The review of these data sources reveals one primary consistency, which is inconsistency. These discrepancies are most profound in rural foreclosure rates and estimates. The level of foreclosures presented, as well as the scope and methodologies incorporated to make these estimates vary widely. Additionally, rural foreclosure estimates are not available for several of the sources reviewed.

Another important consideration when looking specifically at rural foreclosure rates is the consummate question of "what is rural?" This question confuses, perplexes, and confounds nearly everyone who works in rural areas or with rural populations of the United States. In general, rural areas share the common characteristics of comparatively few people living in an area, limited access to large cities, and considerable traveling distances to "market areas" for work and everyday-living activities.

Several of the data sources present rural foreclosure estimates at the county level. While this is a common level of geography from which to base a rural classification, county-based designations are not the optimum criteria on which to assess rural conditions. Large counties, particularly in the Western United States, may dilute or mask rural population given their geographic size and influence. In foreclosure stricken California for example, a large number of the state's counties are classified as metropolitan by the Office of Management and Budget (OMB), yet arguably have substantial rural population and territory within their counties. Rural foreclosure rates in this state could be obscured or misattributed based on this county level geography. A more refined (sub-county) definition of rural -- such as the CDBG non-entitlement area definition incorporated in LISC's foreclosure estimates—may provide a more precise indicator of rural character. While such definitions are preferable to county based indicators in many respects, they are not without their own drawbacks. In sum, there is no perfect definition of rural. Most of the "major definitions of rural have both advantages and drawbacks. Like many other social issues and conditions, defining rural is yet another constraint to accurately assessing the foreclosure situation in rural America.

LEFT OUT? SPECIAL CONSIDERATIONS FOR RURAL AMERICA

In most respects, housing in rural areas is not much different than the nation as a whole. However, some housing characteristics are unique to rural America. Two areas where rural housing conditions are quite different include manufactured homes and government-assisted loan programs. To provide a more complete assessment of foreclosure activity in rural areas, lending patterns in these unique rural housing markets are briefly reviewed.

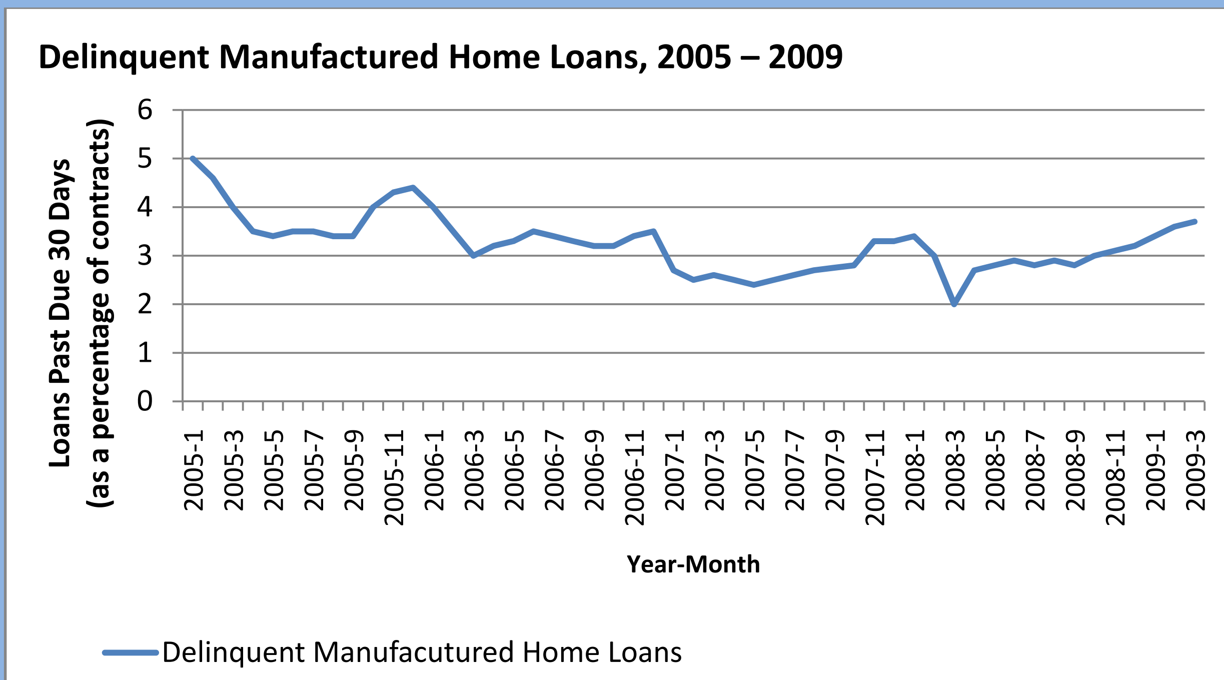
Manufactured Housing

Manufactured homes are an important source of housing, especially in rural areas. Nationwide, approximately 7 percent of occupied housing units are mobile or manufactured homes. In rural areas the prevalence of manufactured housing is more than twice the national rate, and nearly two-thirds of all manufactured homes are located in rural communities.

While many physical and structural attributes of manufactured housing have improved, issues related to financing and the investment value of this type of housing have not progressed as well. Over half of rural households living in manufactured homes own their units "free and clear" of any mortgage debt. For manufactured home residents who do not own their homes outright, financing generally falls within one of two major types, personal property or mortgage financing. Personal property or "chattel" loans are generally used when the manufactured home is purchased separately from the site. Personal property loans generally involve lower down payment costs than in standard mortgage lending. However, personal property loans typically carry a higher interest rate and shorter term than a conventional real estate mortgages. Most manufactured homes are classified as personal property and are likely to be financed with consumer or chattel loans. In the case of default, consumer loans are less likely to proceed through the standard foreclosure process, and more likely to go through the process of "repossession," much like an automobile.

Recent information from the American Bankers Association (ABA) Consumer Credit Delinquency Survey indicates that delinquency and repossession among manufactured homes with consumer loans follows the overall national trend and is on the rise. As of March 2009, an estimated 3.7 percent of consumer manufactured home loans were more than 30 days past due (ABA 2009).

The nation's current housing woes are surprisingly reminiscent of what happened in the manufactured housing industry in the early 2000s. After experiencing dramatic growth throughout much of the 1990s, the manufactured housing industry has spiraled downward into a sustained slump. Much of this decline was precipitated by the overextension of risky financing that backfired after record high foreclosure rates produced a glut of manufactured units with depressed the market (HAC 2005). Shipments 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.



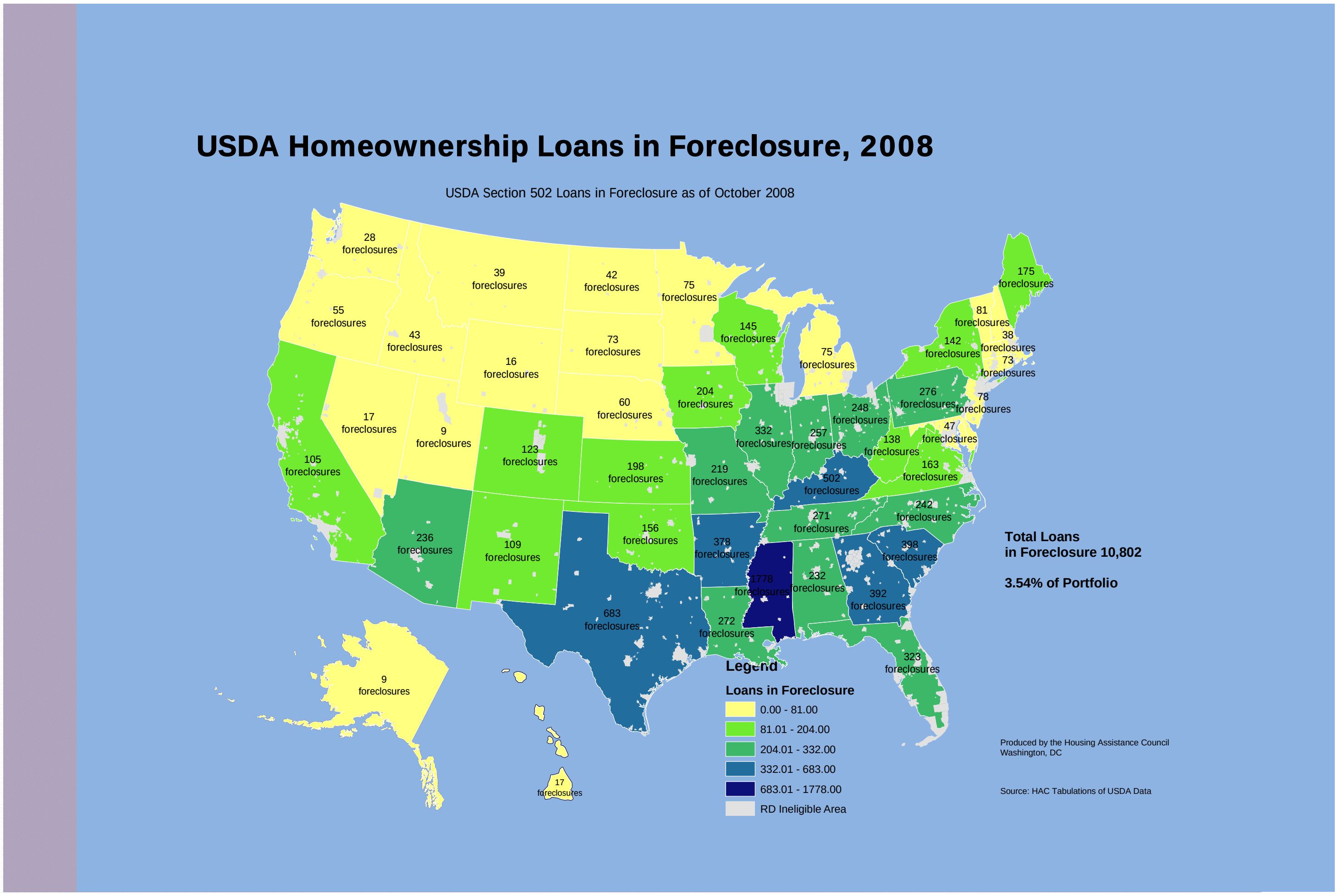
Source: HAC Tabulations of American Bankers Association Data

Federally Funded Rural Housing Loans

While the recent subprime mortgage meltdown has contributed to a significant crisis in the housing market, it is important to remember that it is possible to do subprime lending in a way that meets rigorous lending criteria and produces sustainable homeownership for low-income borrowers.

Since the mid-1930s, the federal government has supported the production of low- and moderate-income rural housing (Belden 1984). This assistance has directly improved the housing conditions for millions of low-income rural Americans. One of the more prominent federally funded housing programs for rural areas is the US Department of Agriculture's (USDA) Section 502 Homeownership Loan Program. The Section 502 program provides both direct and guaranteed mortgage assistance for low- and moderate-income households. Since the 1950s, USDA's Section 502 program has helped more than 2.5 million low-income households become homeowners. This USDA direct homeownership program along with countless other local community development financial institutions that provide affordable lending products to low-income borrowers is often referred to as "subprime lending done right."

Similar to national trends, the Section 502 loan portfolio experienced increases in both delinquencies and foreclosures in FY 2008. At the end of the fiscal year, approximately 13.5 percent of single-family direct loans were more than 30 days delinquent, and nearly 4 percent of the direct loan portfolio was in foreclosure (USDA 2008). Despite increases in problem loans, the overall foreclosure rate among RD loans is lower than comparable portfolios such as the Federal Housing Administration (USDA 2008).



A Way Forward for Rural America: Policy and Programmatic Recommendations

It is undeniable that systemic and structural faults in our nation's housing and finance system directly contributed to the unprecedented foreclosure crisis. Understanding the magnitude and scope of the foreclosure problem is imperative to formulating an appropriate and adequate response. Policymakers and housing practitioners rely on these figures to craft programs to address foreclosures in their communities.

Finding quality and accurate data is a key challenge to understanding and addressing the mortgage default and foreclosure crisis. Like the mortgage mess itself, there are complex, as well as simplistic factors, obscuring the assessment of this problem. Characteristically, the mortgage and foreclosure situation is even less clear in rural areas. Foreclosure estimates produced by some entities run contrary to figures produced by others, and some of the greatest of these discrepancies and omissions are in rural areas.

Ultimately, this brief inquiry could not establish an exact or definitive estimate of the number of rural households that are in the process of foreclosure. However, at a minimum, we can safely assume that hundreds of thousands of rural households are facing the economic crisis of foreclosure or serious housing distress. Furthermore, these housing problems may linger in rural communities due to a lack of economic vitality and diversification. The following recommendations are presented not only improve the reporting of housing conditions, but also to assist households and communities damaged by the foreclosure epidemic.

Improve Reporting of Housing Foreclosure and Loan Delinquency, Especially for Rural Areas.

Establish reliable foreclosure data for all rural areas: The federal government, either through FHFA or HUD, should establish frequent and easily available foreclosure data at the local community level for the entire nation, including rural areas.

Improve existing data on housing finance. The Home Mortgage Disclosure Act (HMDA) should be amended to include reporting for *all* mortgage lending institutions and rural communities.

Recommendations for Homeowners Facing Foreclosure

Rural residents facing foreclosure should be provided the opportunity to modify their loan, including:

- Reducing high mortgage interest rates
- Eliminating prepayment penalties
- Converting ARMs to fixed rate mortgages
- Modifying mortgage terms to reduce loan amounts, lower interest rates, delay ARM adjustments, extend loan terms, and eliminate credit counseling requirements
- Providing tax relief so that mortgage debt forgiven by lenders is not taxed as income (a law enacted in December 2007 provides such relief for three years).

Additional loans could help some owners. An owner in danger of foreclosure because of an unexpected, one-time event such as a job loss or medical crisis may be able to make payments on an additional short-term loan.

Renters should be protected from sudden eviction when lenders foreclose on property owners. Rural renters are among the poorest and worst housed groups in the nation. In many areas they are also vulnerable to eviction if the home they rent is foreclosed on.

Rural homeowners with mortgages guaranteed by USDA should be able to refinance with mortgages made directly by USDA. Mortgages made by private lenders and guaranteed by the U.S. Department of Agriculture (USDA) Section 502 program carry higher interest rates than Section 502 direct loans, for which USDA is the lender. Additionally, USDA should use its authority to defer payments on Section 502 direct loans when deferral would help prevent foreclosure.

Manufactured and mobile homeowners should be provided opportunities to obtain standard mortgage loans to replace the personal property loans often used to purchase their homes. Manufactured homes with installment loans are sometimes difficult to title as real estate. In addition, households with personal property loans are often not afforded consumer protections such as the Real Estate Settlement Procedures Act (RESPA), and the Home Ownership Equity Protection Act (HOEPA) (CFED 2009). Furthermore, personal property loans are not subject to reporting under the Home Mortgage Disclosure Act (HMDA).

Post-purchase counseling programs should be expanded. Increased funding should be provided to train and assist rural organizations in the design and implementation of post-purchase counseling courses. Research has shown that certain types of pre-purchase counseling are more effective than others, and the same is probably true of post-purchase counseling. One-on-one pre-purchase counseling was most effective to reduce delinquency rates, followed by classroom counseling and study at home. Post-purchase counseling should be an eligible use for HOME and Section 523 funds.

Solutions for Rural Homeowners Not Currently in Crisis

Public policy must address abusive lending terms and activities.

The Community Reinvestment Act should be supported and strengthened, and should apply fully to the small lenders that provide much of rural America's home financing.

Federal standards should be adopted for mortgage originators.

Proven homeownership programs should be supported, including USDA direct loans, self-help "sweat equity" construction, and Individual Development Accounts that encourage saving for down payments and other costs of homeownership.

Pre-purchase counseling should be widely available and affordable.

Education about predatory and subprime lending should be improved and increased.

Affordable and reliable internet access is not always available in rural areas, outreach and help must be available through other media.

NOTES

American Bankers Association (ABA). *Consumer Credit Delinquency Bulletin.* First Quarter2009, No, 527.

Belsky, Eric. "The Future of Affordability: Trends Nonprofit Housers Should Be Watching," *Shelter Force,* November. December 2001.

Bialik, Carl. "Trying to Track the Mortgage Mess." *The Wall Street Journal*. July 18, 2008.

CFED, *Titling Homes as Real Property: Manufactured Housing Resource Guide.* *http://www.cfed.org/imageManager/_documents/mh_realproperty.pdf* 2009.

Chen, Celia. *Mortgage Foreclosure Data.* Moody's Economy.com. Presented at the Housing Statistics Users Group. (Washington DC: June 3, 2008).

Federal Housing Finance Agency (FHFA). *House Price Index, Nonmetropolitan Areas by State through 2009 1Q*. http://www.fhfa.gov/Default.aspx?Page=87 2009.

FFIEC. *Home Mortgage Disclosure Act.* http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20060403a1.pdf April 3, 2006.

Finn, Scott. "Foreclosures Hit Rural America, But Quietly." *National Public Radio.* Aired October 7, 2008.

Galvin, Andrew. "Tracking the Truth on Foreclosures," *The Orange County Register.* November 18, 2007.

Housing Assistance Council (HAC). *Moving Home: Manufactured Housing in Rural America.* (Washington DC: 2005).

HUD. HAC Tabulations of Neighborhood Stabilization Program Data. http://www.huduser.org/nspgis/nsp_map_by_state.html. May 2009.

Kan, Joel. "Sources of Foreclosure Data." *MBA Research DataNotes.* Mortgage Bankers Association. (Washington DC: July 2008).

LISC. Foreclosure Response.org. http://www.housingpolicy.org/assets/foreclosure-response/methodology_11-04-08_CDBG.pdf November 2009.

National Community Reinvestment Coalition (NCRC). Subprime and Predatory Lending Defined. http://www.fairlending.com/

Realty Trac -a. Telephone discussion with ReatlyTrac representative, Mike Smith. July 25, 2008.

Realty Trac -b. HAC Tabulations of RealtyTrac Foreclosure Inventory Data. July 2008.

Wilkerson, Chad R. "Is Rural America Facing a Home Price Bust?" *The Main Street Economist.* Federal Reserve Bank of Kansas City. Volume III, Issue IV, 2008.

USDA. *Single Family Housing Program Portfolio Performance.* Presented at the National Rural Housing Conference. (Washington DC: December 8, 2009).