



RURAL RESEARCH NOTE

HOME MORTGAGE DEMAND DECLINED IN RURAL AMERICA TOO



Photo: Jennifer Emerling, *There is More Work to Be Done*

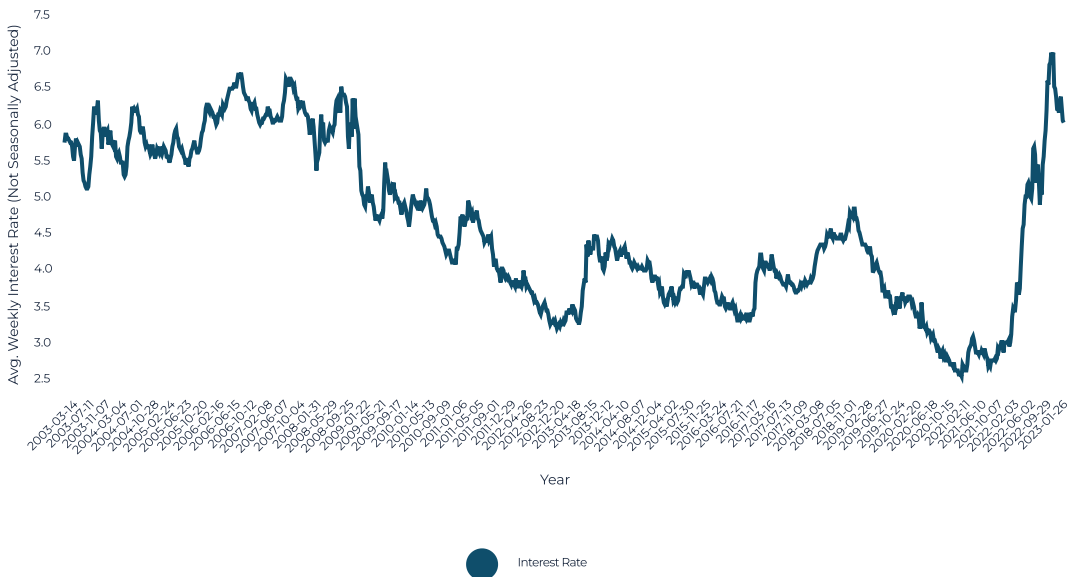
Signs and Trends from a USDA Housing Finance Product

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Signs and Trends from a USDA Housing Finance Product

There have been numerous business and media reports on the slowdown in homebuying and mortgage activity in recent months.¹ This market response is largely related to recent interest rate increases for 30-year fixed mortgages spurred by the Federal Reserve raising its benchmark rates. According to some estimates, the rate of mortgage applications nationally fell by half in 2022, and refinancings plummeted even more.²

30-Year Fixed Rate Mortgage Average in the United States (Not Seasonally Adjusted) 2003 -2023



Source: Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States, Federal Reserve Bank of St. Louis; February 1, 2023.

Are mortgage markets behaving similarly in rural America too? Housing finance dynamics in rural areas often mirror national trends – but with a few peculiarities. Due to underlying economic and demographic characteristics, rural finance dynamics sometimes lag suburban and urban trends and experience less volatility generally. It is important to note that every economic event is different, and most importantly, is felt differently in specific rural markets and communities.

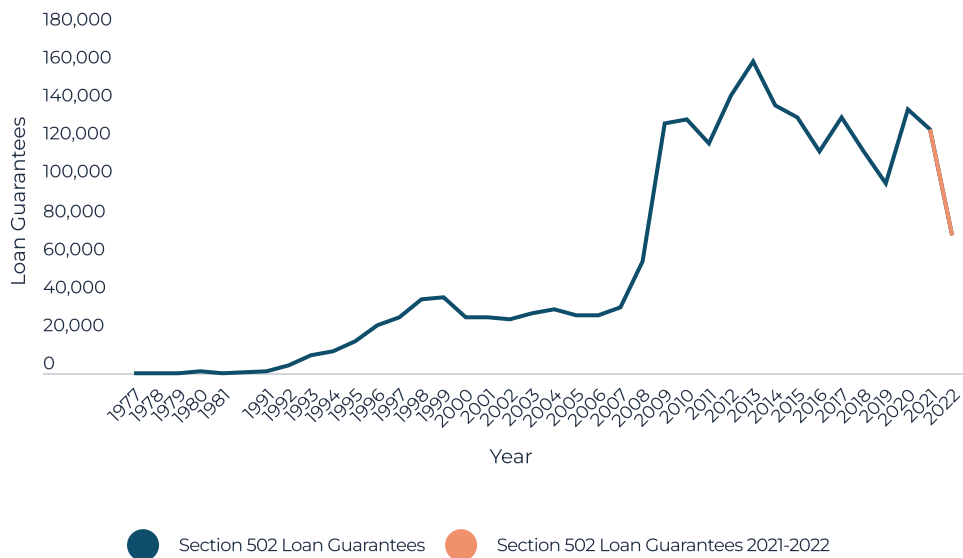
But data from the Department of Agriculture (USDA) on its Guaranteed Home Loan product signals that rural homebuyers hit the brakes in 2022 as well.

Beginning in the late 1970s, USDA began providing a federal loan guarantee to borrowers seeking to purchase or rehabilitate a home in an eligible rural area (although USDA's eligible areas often include some suburban and exurban communities). Applicants must have low or moderate incomes to qualify and there is no down payment requirement. In many respects USDA's loan guarantees are similar to Federal Housing Administration (FHA) loans in which the mortgage is originated by a private market lender and insured against default by the U.S. government.

Over 2 million homes have been financed with USDA loan guarantees since the product's inception. The agency has guaranteed more than 100,000 mortgages each year since 2009. But not in 2022. In the last fiscal year, USDA loan guarantees plummeted by more than 40 percent from their 2021 level and dropped well below the 100,000-loan mark to guarantee 72,000 loans.

USDA Section 502 Mortgage Guarantees

Fiscal Years 1977-2022

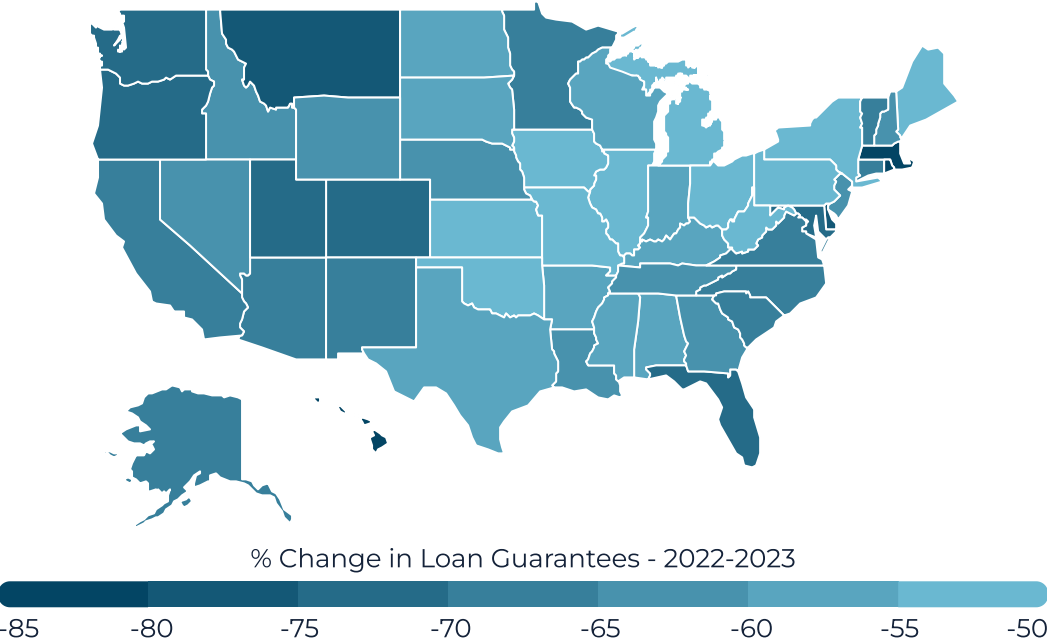


Source: Housing Assistance Council Tabulations of USDA Data

USDA MORTGAGE GUARANTEES ARE DOWN SUBSTANTIALLY IN ALL STATES

The decline in USDA’s guarantees is generally consistent across the nation. All states experienced a decline in USDA mortgage guarantees and the declines were substantial. Between January 2022 and January 2023 all but four states and territories had declines of 50 percent or more in this loan product. Montana, Hawaii, Massachusetts, and Rhode Island all experienced more than an 80 percent decline in their USDA loan guarantees over this time.

Change in USDA Section 502 Loan Guarantees January 2022 - January 2023



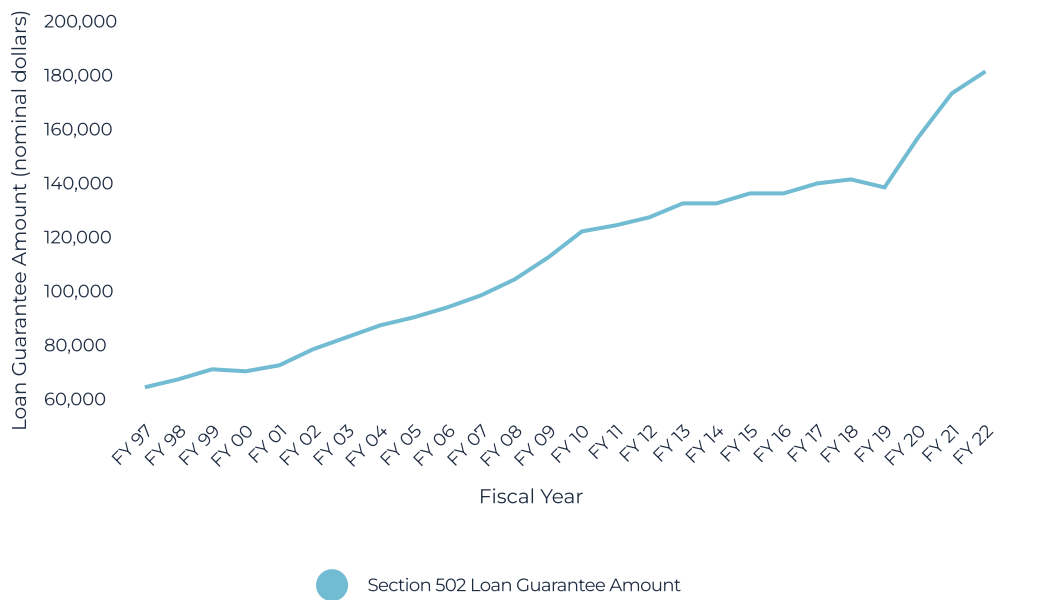
Source: Housing Assistance Council Tabulations of USDA Data

HOUSING PRICES MAY BE A FACTOR TOO

While mortgage interest rates have increased at the greatest pace in decades, another factor that has steadily evolved over a longer time period may also be contributing to reduced mortgage activity in rural areas. Nationally, the average price of a new single-family home in the United States has skyrocketed over the past few years. According to the most recent Census Bureau and HUD reporting, median sales price for a new home sold in the United States was \$467,700.³

Relatedly, the Federal Housing Finance Authority’s Housing Price Index reached its highest level since 1980 in the third quarter of 2022.⁴ The price of new homes financed with USDA’s home loan guarantee has witnessed similar increases and spikes in prices to those national trends. In fiscal year 2022, the average loan amount ⁵ for a USDA guaranteed loan was \$185,241 – up 31 percent from the 2019 average loan amount with this product.

USDA Section 502 Guarantee Loan Amounts Fiscal Years 1997-2022

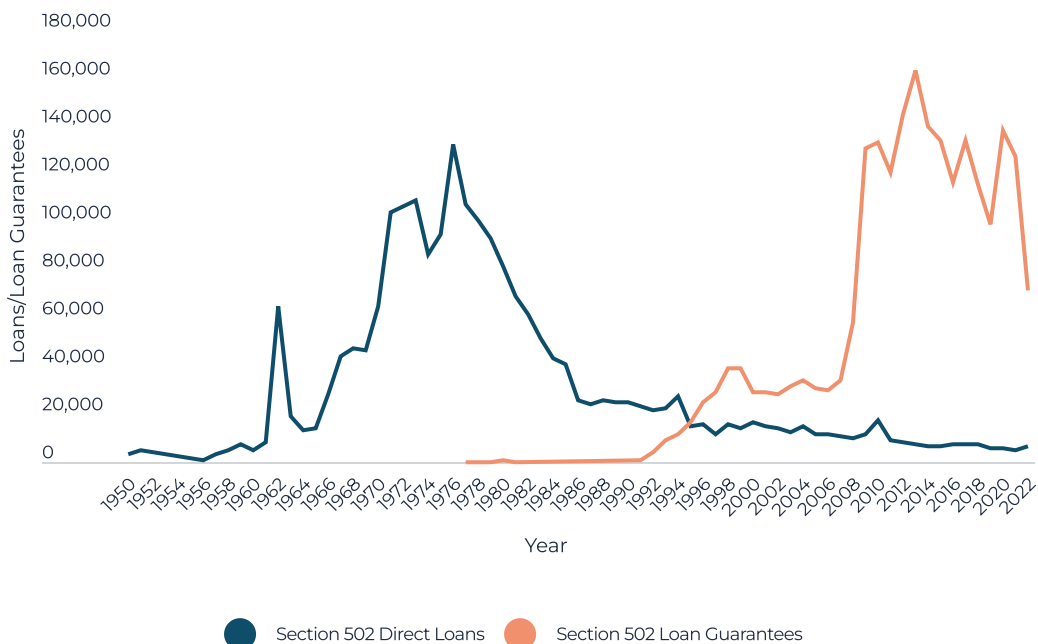


Source: Housing Assistance Council Tabulations of USDA Data

A TALE OF TWO MORTGAGE PRODUCTS AT USDA

The Department of Agriculture has been supporting housing opportunities in rural communities for over 70 years. While these efforts are sometimes not high profile in the larger housing world or market, USDA has directly or indirectly supported the development and purchase of millions of homes for low- and moderate-income households across the rural landscape. Over the past few decades the approach to rural housing provision at the department has changed and evolved, particularly in the realm of home purchase and finance. Beginning in the 1950s, USDA began offering home mortgages where the agency itself underwrote, financed, and serviced home mortgage loans – commonly known as ‘direct’ loans. Starting in the early 1990s, loan guarantees became a larger component of the agency’s home lending efforts and by the late 1990s loan guarantees largely eclipsed direct lending at the agency. While direct loans are still made by USDA, they comprised less than one percent of USDA supported mortgages in 2022 – even with declines in the guaranteed product.

USDA Section 502 Direct and Guaranteed Mortgage Loans - Fiscal Years 1950-2022

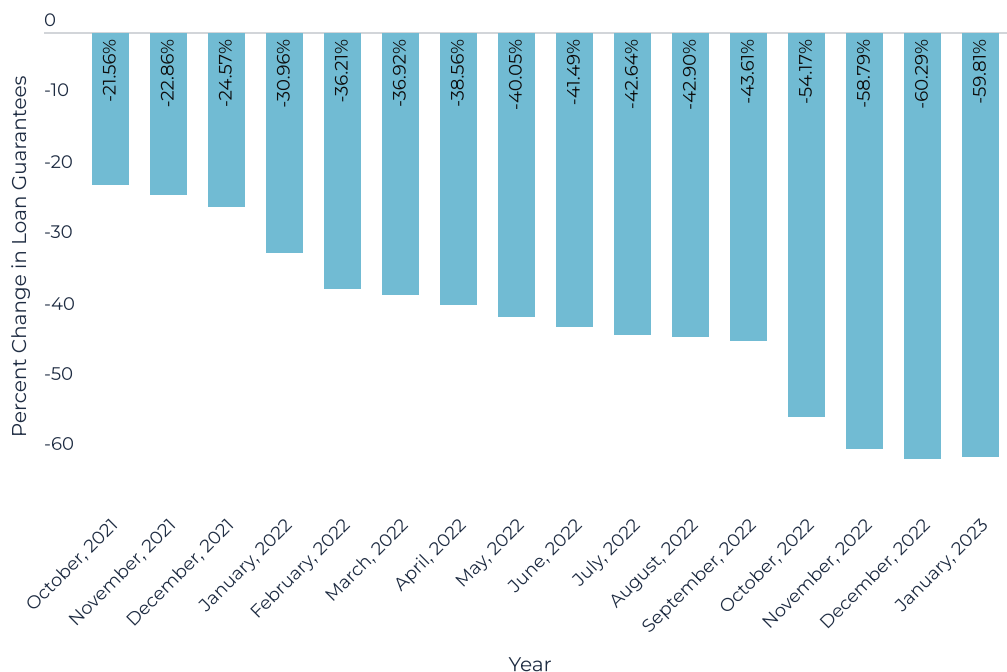


Source: Housing Assistance Council Tabulations of USDA data

These two primary mortgage finance products offered by USDA have diverged in production as well as homebuyer dynamics and households served. Generally, the guaranteed product serves higher priced home purchases and higher income borrowers. All borrowers for the direct product must be low-income, while only 14 percent of guaranteed borrowers in December of 2022 met this low-income threshold, with 85 percent of guaranteed borrowers having moderate-level incomes. Similarly, the annual median borrower income for a USDA guaranteed loan in 2021 was \$61,105, compared to \$39,497 for borrowers with a direct loan.⁶ While the direct loan product did not see the same declines in originations as witnessed by the guaranteed product, the direct product operates under extremely limited supply dynamics and by most accounts is highly oversubscribed with large waiting lists. Finally, it is important to note that both products are subject to non-market factors such as budgetary appropriations, federal staffing resources and operations, and private-public business relationships in the administration of these loans.

USDA Section 502 Mortgage Guarantees

Monthly Change, October 2021 - January 2023



Source: Housing Assistance Council Tabulations of USDA data

WHERE ARE RURAL MORTGAGE MARKETS HEADED?

Housing markets and dynamics are continually evolving and changing. The past few years have been particularly erratic, starting with record low interest rates, a refinancing boom, continued home price spikes, and now a swing back to high interest rates. These decades-high interest rates are beginning to creep downwards, but there may be a lag in the rural guaranteed market as month over month declines in USDA guaranteed loan activity continue to grow despite the interest rate trend. In January 2023, loan guarantees for this USDA product were down 60 percent from January 2022.

Rural mortgage markets have not always mirrored national trends. But the declines in USDA's home mortgage guarantees clearly indicate that macro-economic conditions of high interest rates and skyrocketing home prices are factors also impacting rural consumers seeking affordable housing finance options.

ABOUT THE AUTHOR



Lance George is the Director of Research and Information at the Housing Assistance Council. Lance works at the intersection of housing, research, and data to help Americans who have quality and safe homes, better understand and act for those who do not. Lance's research encompasses a wide array of issues and topics related to affordable housing.

NOTES

1. Mortgage Demand Plunges As 2022 Ends. Forbes.

<https://www.forbes.com/sites/qai/2023/01/05/mortgage-demand-plunges-as-2022-ends/?sh=2fc8ec485fd0> January 5, 2023.

2. Mortgage Applications Decreased Over a Two-Week Period in Latest MBA Weekly Survey, Mortgage Bankers Association, <https://www.mba.org/news-and-research/newsroom/news/2023/01/04/mortgage-applications-decreased-over-a-two-week-period-in-latest-mba-weekly-survey>, January 4, 2023.

3. U.S. Census Bureau and U.S. Department of Housing and Urban Development, Median Sales Price of Houses Sold for the United States [MSPUS], retrieved from FRED, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/MSPUS>, January 30, 2023.

4. U.S. Federal Housing Finance Agency, All-Transactions House Price Index for the United States [USSTHPI], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/USSTHPI>, January 31, 2023.

5. In this analysis, loan amounts are a proxy for housing prices.

6. Housing Assistance Council, USDA Rural Development Housing Activity, Fiscal Year 2021 Year End Report <https://ruralhome.org/wp-content/uploads/2022/04/USDA-Housing-Activity-Report-FY-2021.pdf>. April 2022.

The **Housing Assistance Council** is a national nonprofit organization that helps build homes and communities across rural America.

HOUSING ASSISTANCE COUNCIL
1025 Vermont Avenue, NW
Sixth Floor
Washington, DC 20005
202-842-8600

www.ruralhome.org



Photo: Rory Doyle. *There is More Work to Be Done*