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Housing Assistance Council

MORTGAGE LENDING IN RURAL COMMUNITIES

Rural areas of the United States face a host of issues related to home mortgage access and availability. Quality credit and affordable mortgage sources are often more difficult to find in rural areas than in cities or suburbs. Because of their smaller size and remoteness, rural communities tend to have less competition and thus higher lender costs than urban markets. Subprime and high cost loans influence rural mortgage markets as well.

ABOUT HMDA

Data collected under the *Home Mortgage Disclosure Act* (HMDA) is one of the most important sources of information on mortgage lending and housing finance for communities. Unfortunately, using HMDA data to study rural lending patterns has its limits. Only larger depository institutions that are headquartered in metropolitan areas are required to report lending activity. Many small, rural financial institutions are not required to report and, consequently, an undetermined amount of rural lending data is not available.

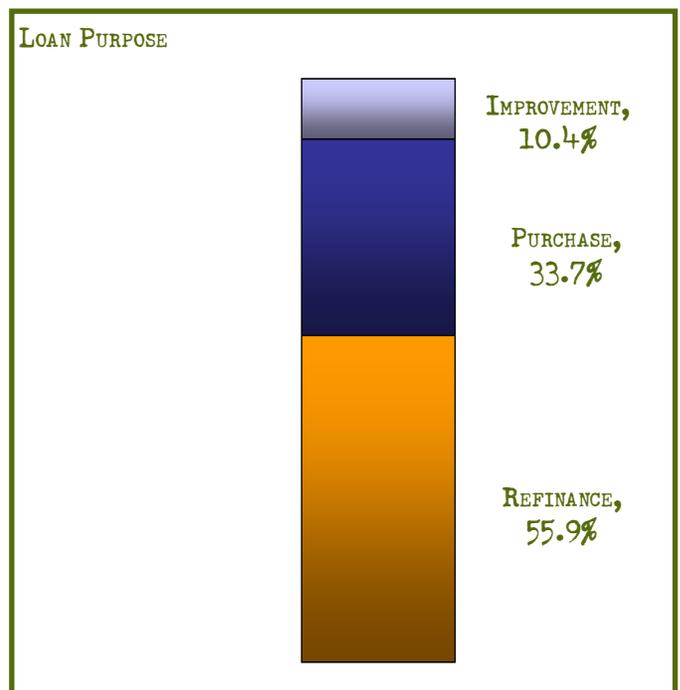
MORTGAGE LENDING IN RURAL AMERICA

In 2005 over 8,800 financial institutions reported loan applications under HMDA. Approximately 72 percent of these lenders received applications in rural areas. About one-fifth of HMDA-reported

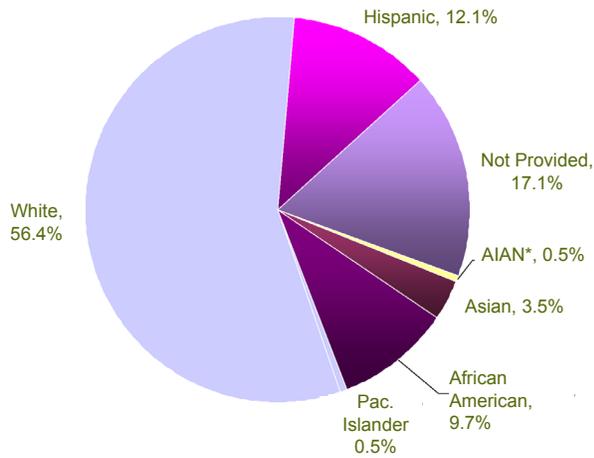
applications from rural areas came through just five financial institutions:

1. Countrywide Home Loans
2. Ameriquest Financial
3. Wells Fargo
4. Beneficial Homeowner Services
5. GMAC Mortgage Corporation

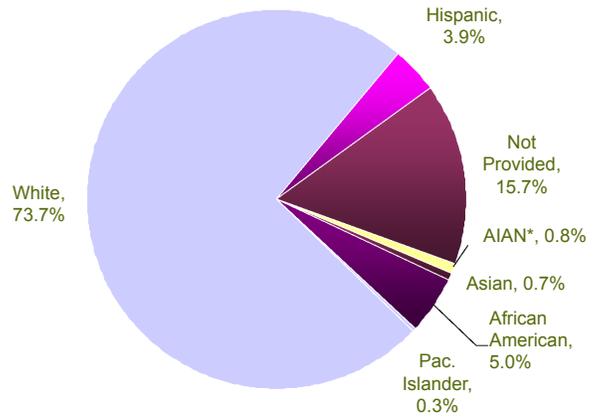
Of the approximately 30 million home mortgage applications reported through HMDA in 2005, 4.2 million (about 14 percent) were from rural areas of the United States. Less than 4 percent of the rural applications requested loans insured by the Federal Housing Administration, guaranteed by the Department of Veterans Affairs, or made or



RACE AND ETHNICITY FOR ALL HMDA APPLICATIONS



RACE AND ETHNICITY FOR RURAL HMDA APPLICATIONS



*AIAN: American Indian Alaska Native

guaranteed by the U.S. Department of Agriculture.

At \$89,000, the median loan amount requested in rural areas was more than 30 percent lower than the median nationwide request of \$130,000. This is in line with previous findings that housing prices are generally lower in rural areas than in cities and suburbs.

As in the recent past, loan applications for housing refinance made up a substantial proportion of rural loan activity in 2005; over half of all applications reported by HMDA were for refinancing. Home purchases accounted for more than 1.4 million or approximately one-third of applications, with the remaining 10 percent for home improvement.

RURAL MORTGAGE APPLICANTS

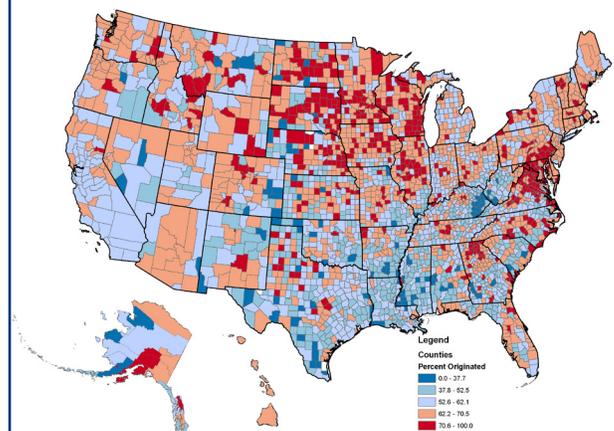
HMDA data reflect the fact that the racial and ethnic composition of U.S. rural residents tends to be more homogenous than in cities. Approximately 74 percent of rural applicants in 2005 were white and not of Hispanic origin, compared to 56 percent of all applicants nationwide. African Americans comprised 5 percent of rural applicants compared to

nearly 10 percent nationwide. Likewise, Hispanics were 12 percent of all applicants in the U.S. compared to just 3.9 percent in rural areas. The median household income among rural applicants was \$52,000 — more than 20 percent below the \$66,000 median income of all applicants nationwide.

LOAN ORIGINATIONS

Approximately 63 percent of rural home purchase applications resulted in loan originations in 2005. Loan

Home Purchase Originations



originations were higher among rural whites than among racial and ethnic minorities in rural areas. Approximately two-thirds of white non-Hispanic home purchase applications led to originations, compared to just over one-half for rural minorities.

Geographically, origination rates were somewhat higher in the Midwest and Northeast and relatively lower in the Southern United States — an area with higher poverty and concentrations of minorities than other regions.

LOAN DENIALS

Approximately 19 percent of home purchase applications in rural areas were denied by lenders in 2005. HMDA-reported data indicate that credit worthiness is a significant obstacle to homeownership in rural areas. Over one-third of all loan denials reported by HMDA in rural locales involved poor credit history. Other primary reasons for denial include a lack of collateral and a high debt to income ratio.

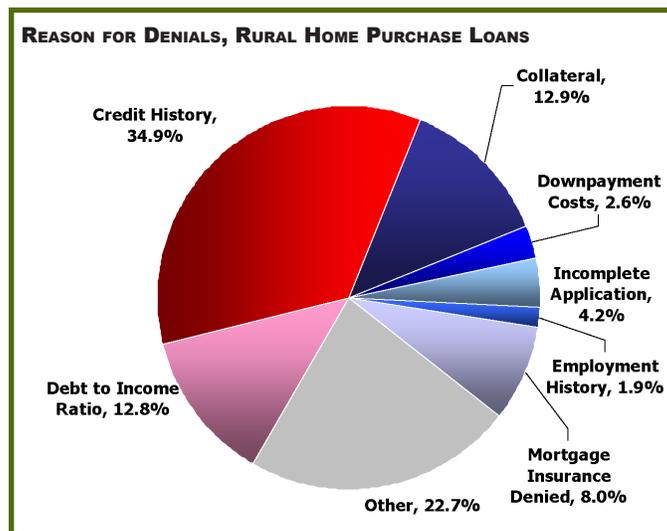
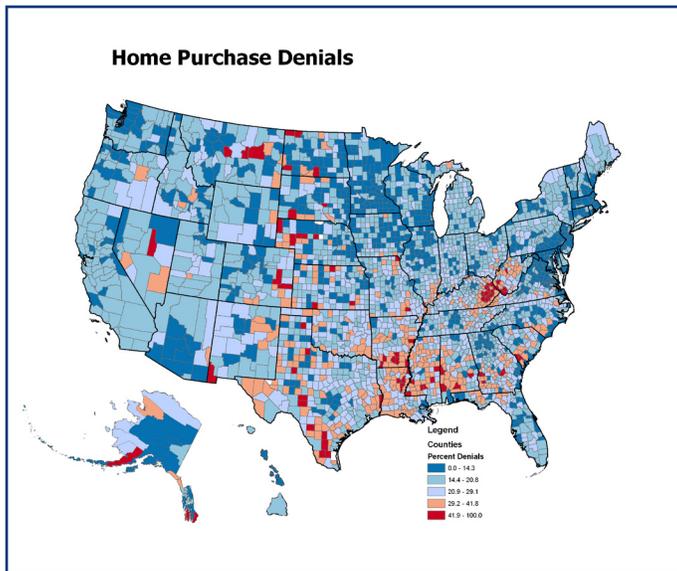
Consistent with their lower origination rates, rural minority applicants had considerably higher denial

rates than rural whites. Overall, 28 percent of rural minority applicants were denied loans compared to 17 percent of rural whites. Loan denial rates were typically higher among minorities in rural areas than nationwide, especially for rural African Americans, whose denial rate was 10 percentage points higher than that of blacks nationally. Echoing the pattern of loan originations, denials were considerably more common in the South than elsewhere.

HIGH COST LOANS

In 2005 approximately 2 million, or 28 percent, of all home purchase originations in the United States were classified as high cost loans. High cost mortgages are those loans with interest rates at least 3 percentage points for first lien loans (5 percentage points for second mortgages) above Treasury securities of comparable maturity.

In rural areas, one-quarter of all home purchase originations were high cost loans, accounting for 11 percent of all high cost loans nationwide. Approximately 39 percent of rural home purchase originations for households with incomes below \$25,000 were high cost.

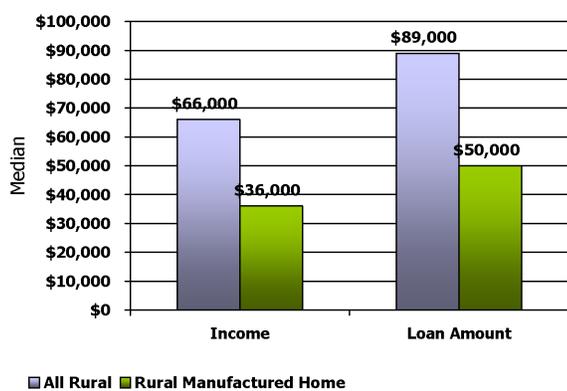


MANUFACTURED HOUSING

In 2005, there were approximately 740,000 mortgage applications for manufactured homes. Manufactured housing has traditionally been more prevalent in rural areas of the United States and approximately 44 percent of all manufactured home applications were from rural locales. Manufactured home applications made up less than 2 percent of urban applications compared with nearly 8 percent of all rural applications.

In rural areas, most HMDA-reported applications were for home refinance. However, among rural manufactured homes, most applications (approximately 60 percent) were for home purchase. Among home purchase applications approximately 38 percent of those for manufactured homes were originated compared to 66 percent for one- to four-family structures. Likewise, loan denial rates were also significantly higher for manufactured homes than for most other types of structures. Approximately 43 percent of manufactured home applications were denied compared to just 15 percent for one to four units.

APPLICANT INCOME & LOAN VALUE BY STRUCTURE TYPE



Again, rural minorities had disproportionate levels of high cost loans. Approximately 40 percent of rural minorities with HMDA-reported home purchase originations had high cost loans, compared to 23 percent for white non-Hispanics. High cost loans were particularly prevalent among rural African-American borrowers, comprising half of their loan originations.

Manufactured home loans in rural areas were also dominated by high cost lending. Approximately 46 percent of home purchase originations for rural manufactured homes were high cost compared to 24 percent of those for buildings with one to four units.

ABOUT THE DATA

All statistics were derived from Home Mortgage Disclosure Act data for 2005, available from the Federal Financial Institutions Examination Council (www.ffiec.gov). The Housing Assistance Council defines rural areas as nonmetropolitan counties and metropolitan counties with no urbanized areas. Urbanized areas are defined and identified by the Census Bureau.

The Housing Assistance Council, founded in 1971, is a nonprofit corporation that supports the development of rural low-income housing nationwide. 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.

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