Homeownership as an Asset in Rural America

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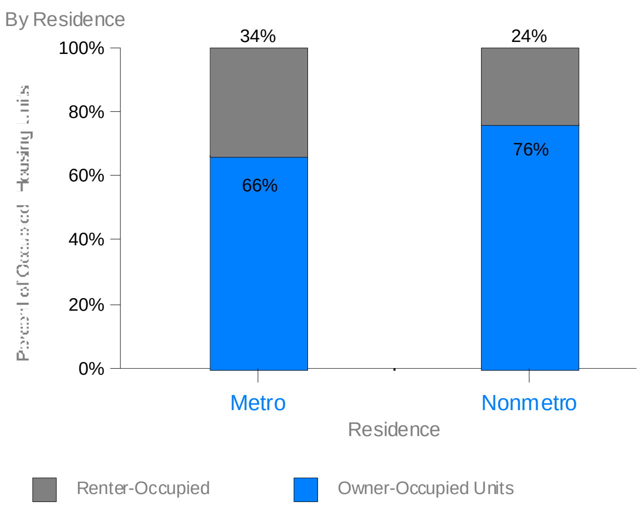
A home is the largest asset most Americans and in particular low- and moderate-income households will ever own. During the nation's recent economic downturn, the overall housing market has remained remarkably strong. Current instabilities in some investment sources have increased the attention to homeownership as a means of wealth accumulation.

Homeownership In Rural Areas

Homeownership is at an all-time high in the United States as 68 percent of nation's households now own their homes. In nonmetro areas more than three out of four units are owner-occupied.

Homeownership



Source: HAC Tabulations of 2003 American Housing Survey Data

Nationwide, minorities have much lower homeownership rates than whites. This is true in rural areas as well; however, homeownership rates for minorities are significantly higher in nonmetro areas than nationwide. The same may be said for low-income households in nonmetro areas, whose homeownership rate is near the national level of 68 percent. A large portion of nonmetro homeowners own their homes free and clear. Overall 53 percent of nonmetro homeowners, compared to 38 percent of metro homeowners, are without a mortgage.

While more rural households own their homes, the equity they accumulate is likely to be less than that for homes in metropolitan areas, because rural houses are generally less expensive. Nationwide, the median value of a home is $120,000. The median value of a home in nonmetro areas is $81,000. Factors such as distance from employment opportunities, markets and amenities contribute to the lower value and appreciation of houses in nonmetro areas.

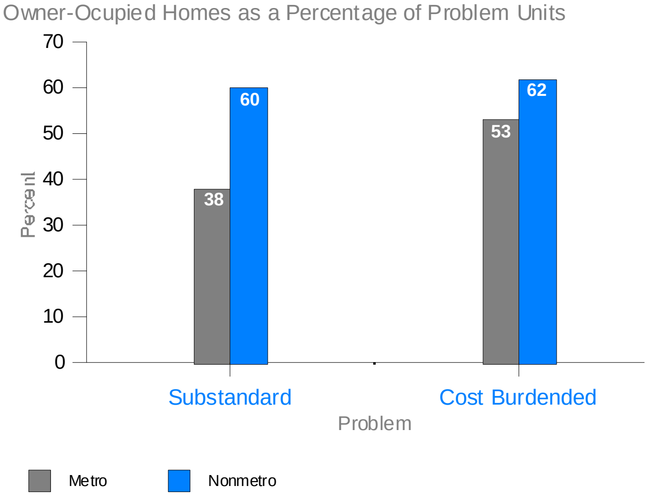
Housing Problems Among Rural Homeowners

In general, renters have lower incomes and consequently experience proportionally more housing problems than do owners. This is also true for renters in rural areas. However, rural homeowners generally experience greater housing problems than do their metropolitan counterparts.

The median income of homeowners in nonmetro areas is 30 percent less than that of metro homeowners. Approximately 60 percent of physically inadequate housing units in nonmetro areas are occupied by owners compared to a rate of 38 percent of substandard occupied by owners in metro areas. Likewise, 62 percent of all cost-burdened households in nonmetro areas are homeowners compared to a little over one-half of homeowners in metro areas.

Housing Problems

Owner-Occupied Homes as a Percentage of Problem Units



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Mortgage Access In Rural Areas

Quality credit and affordable mortgage sources are more difficult to find in many rural areas than in cities or suburbs. The smaller size and remoteness of many rural communities tend to raise lender costs. Rural areas generally have fewer competitors than urban markets, resulting in increased mortgage prices.

Approximately, 10 percent of all nonmetro owners with a mortgage pay interest rates of 10 percent or more, double the metro proportion. The USDA Economic Research Service estimates that $300 million annually is paid in additional interest due to these rural price premiums in mortgage products.

Mortgage Characteristics

By Residence

Source: 2001 American Housing Survey	Metro	Nonmetro
Interest Rate 9.9 Percent or Less	95%	90%
Interest Rate 10 Percent or More	5%	10%
Median Interest Rate (percent)	7.25	7.5
Median Term (years)	30	27

Another recent trend that has greatly influenced rural mortgage markets is the proliferation of subprime lending. Subprime loans tend to have higher interest rates and shorter terms than more conventional "prime" loans because these lenders are assumed to make loans 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 they are increasingly active in rural areas. According to 2000 Home Mortgage Disclosure Act data, approximately 13 percent of all conventional loan originations in nonmetro areas were made by subprime lenders as identified by HUD. Nationwide approximately 4 percent of HMDA reported loan originations in 2000 were made by companies specializing in manufactured home lending. In nonmetro areas, over 10 percent of all mortgage loans were by manufactured home lenders.

The Manufactured Housing Dilemma

Manufactured housing is an important and growing type of housing in the U.S., particularly in rural America. Manufactured homes are a significant contributor to the high homeownership rate in rural areas. Approximately 16 percent of owned units in nonmetro areas are mobile homes compared to 5 percent of the owned metro housing stock.

Unquestionably, the entire manufactured housing industry has gone through a dramatic transformation over the past few decades. Quality, safety and size have dramatically improved, and some manufactured units are virtually indistinguishable from conventionally constructed single family units.

However, the financing of manufactured housing has not advanced as well. A vast majority of new manufactured homes are still financed as personal property loans through sub-prime lenders and companies specializing in manufactured housing credit. This form of financing is generally less beneficial for the consumer than more conventional lending mechanisms.

The appreciation versus depreciation of value for manufactured housing has been a long-debated and often contentious topic within the housing field. It has generally been assumed that manufactured homes depreciate in value.

Recent research from Consumers Union (publisher of Consumer Reports) found that on average, manufactured homes depreciate at a rate of 1.5 percent (-1.5%) compared to an appreciation rate of 4.5 percent for conventionally constructed single-family homes. The research also indicated that manufactured homes in rural areas appreciate less than those in more urbanized areas.

Conclusion

Although owning a home is not a panacea for rural housing problems, it is the overwhelmingly preferred form of tenure in rural America. In addition to providing greater levels of satisfaction, homeownership also bestows certain economic advantages upon owners. Economic well-being is an important by-product of decent homes and neighborhoods. While several barriers to quality and affordable mortgage access are problematic in rural areas, asset accumulation through homeownership is still a significant economic factor for many rural residents.

Notes: Unless otherwise noted all of the data for this report derives from HAC tabulations of the 2003 American Housing Survey (AHS), a biennial random survey conducted jointly by the U.S. Bureau of the Census and the U.S. Department of Housing and Urban Development (HUD).

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