Rural Housing Research Note

Improving HMDA: A Need to Better Understand Rural Mortgage Markets

Housing Assistance Council

HAC

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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.

IMPROVING HMDA: NEED TO BETTER UNDERSTAND RURAL MORTGAGE MARKETS

Our nation is experiencing one of the most extensive and painful economic crises of an entire generation. Housing markets are undeniably 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 also been impacted by the housing crisis, but it is difficult to determine the extent of housing distress in rural communities, given the lack of credible and comprehensive data. The Home Mortgage Disclosure Act (HMDA) provides an example of the limitations of available lending information for rural areas. HMDA is a critical source of information on home lending activities, making it possible for the public at-large to identify potential areas of disinvestment and discrimination in housing. However, there are significant limitations to these data in rural America.

The Home Mortgage Disclosure Act

Congress enacted the Home Mortgage Disclosure Act (HMDA) in 1975 to provide the public with information that would allow stakeholders to determine if financial institutions are serving the credit needs of their communities and identify discriminatory lending activities.[i] The law requires certain financial institutions such as banks, savings associations, credit unions, and other mortgage lending institutions to collect and publically disclose information on home loan applications and purchases.[ii] HMDA provides an array of information on mortgage lending activity such as loan level characteristics (type of loan, disposition of loan, reason for denial, etc), borrower characteristics (race, sex, income, of the borrower), and lending institution details. HMDA is implemented by the Federal Reserve Board, which annually reports these data.[iii] In 2009, HMDA provided information on almost 19.5 million loan records from 8,124 lending institutions.

Undetermined HMDA Coverage for Rural America

HMDA falls short of achieving its ultimate goal due to incomplete coverage and information for rural communities. There are two major HMDA filing exemptions that limit rural coverage. Generally, financial institutions with the following size or location thresholds are not required to report to HMDA.

1) Lenders with assets less than $39 million in 2010.[iv]

2) Lenders that operate exclusively in nonmetropolitan areas.[v]

These exemptions disproportionally impact small lenders that operate in rural communities. For example, of the 989 FDIC-insured lending institutions with assets totaling less than the HMDA filing threshold in 2009, 70 percent were headquartered in rural counties.[vi] These institutions likely represent one of the only sources of credit in some communities.

The filing exemption for lenders with offices exclusively in nonmetropolitan areas has an even larger impact. Approximately 81 percent (over 3,000) of all institutions headquartered in nonmetropolitan counties in 2009 had less than $250 million[vii] in assets. Initially this might not seem like a major issue since most of these lenders exceed the HMDA asset filing threshold; however, banks of this size primarily operate in the county in which they are headquartered.[viii] Consequently, many of these rural lenders likely qualify for the HMDA filing exemption.

FDIC Insured Institutions 2008-2009 Presented by Assets and HMDA Threshold[1]

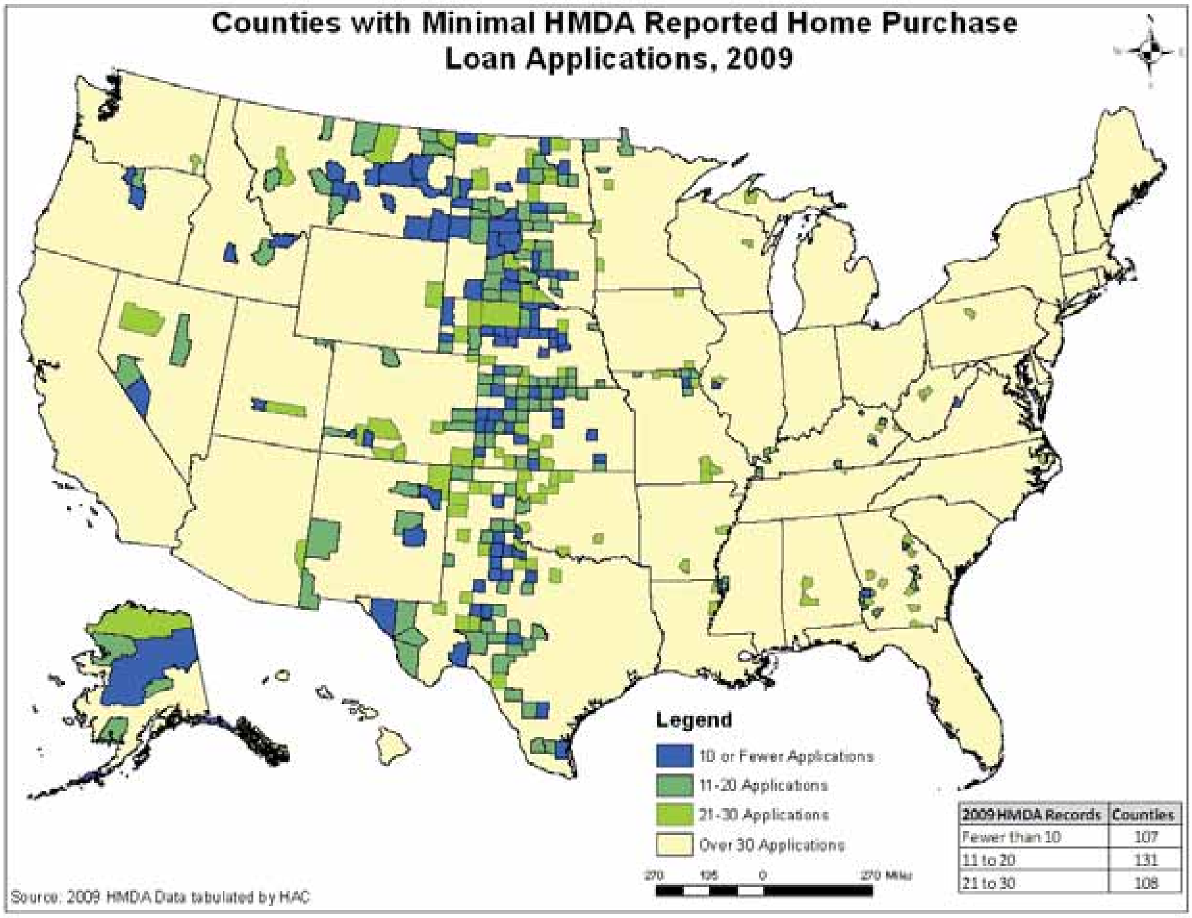
Total Asset Measure	2008 Headquarters[2]				2009 Headquarters[2]			
	Metro		Non-Metro		Metro		Non-Metro	
	Number (%)	% of Area Cases	Number (%)	% of Area Cases	Number (%)	% of Area Cases	Number (%)	% of Area Cases
Below HMDA Threshold[3]	427 (39.83)	8.86	645 (60.17)	17.41	361 (36.50)	7.67	628 (63.50)	17.48
Assets Below $250 Million	2889 (48.49)	59.94	3069 (51.51)	82.83	2740 (48.45)	58.25	2915 (51.55)	81.15
All Institutions	4820 (56.54)	---	3705 (43.46)	---	4704 (56.70)	---	3592 (43.30)	---
Total All Areas	8,525				8,296			

Source: December 31, 2006, December 31, 2007 and December 31, 2008 Call Reports

[1] Data compiled from December 31st of previous year which is when a determination on whether or not an institution must file would be made.
[2] All locations are based on lender headquarters. Metro and non-metro distinctions are a county-based designation.
[3] The HMDA threshold was $36 million in 2007 and $37 million in 2008 and 2009

Due to the filing exemptions detailed above and the resulting lack of reporting from these institutions, the larger picture of rural home lending is unclear. The extent to which HMDA accurately captures lenders is currently undetermined, but many experts believe it to be lacking. Even the Federal Reserve Board's own economists state, "While HMDA coverage for MSAs is quite complete, reporting exceptions lead to significant distortions in the coverage of rural areas in HMDA. For these reasons, rural areas are often dropped from analysis of HMDA."[ix]

Size and asset exemptions are typically justified under the auspices of overburdening small banks with limited resources. However, with advances in technology and data processing, the degree to which there is a burden associated with complying with HMDA reporting is questionable. The cost burden associated with similar Community Reinvestment Act (CRA) federal filing requirements has been estimated at an average of 10 burden hours per year.[x] Similarly, the proportional costs for small bank CRA compliance are estimated to be 0.039 percent of an institution's assets.[xi] Ultimately, the ability to understand mortgage lending activity for all communities outweighs these cost concerns.



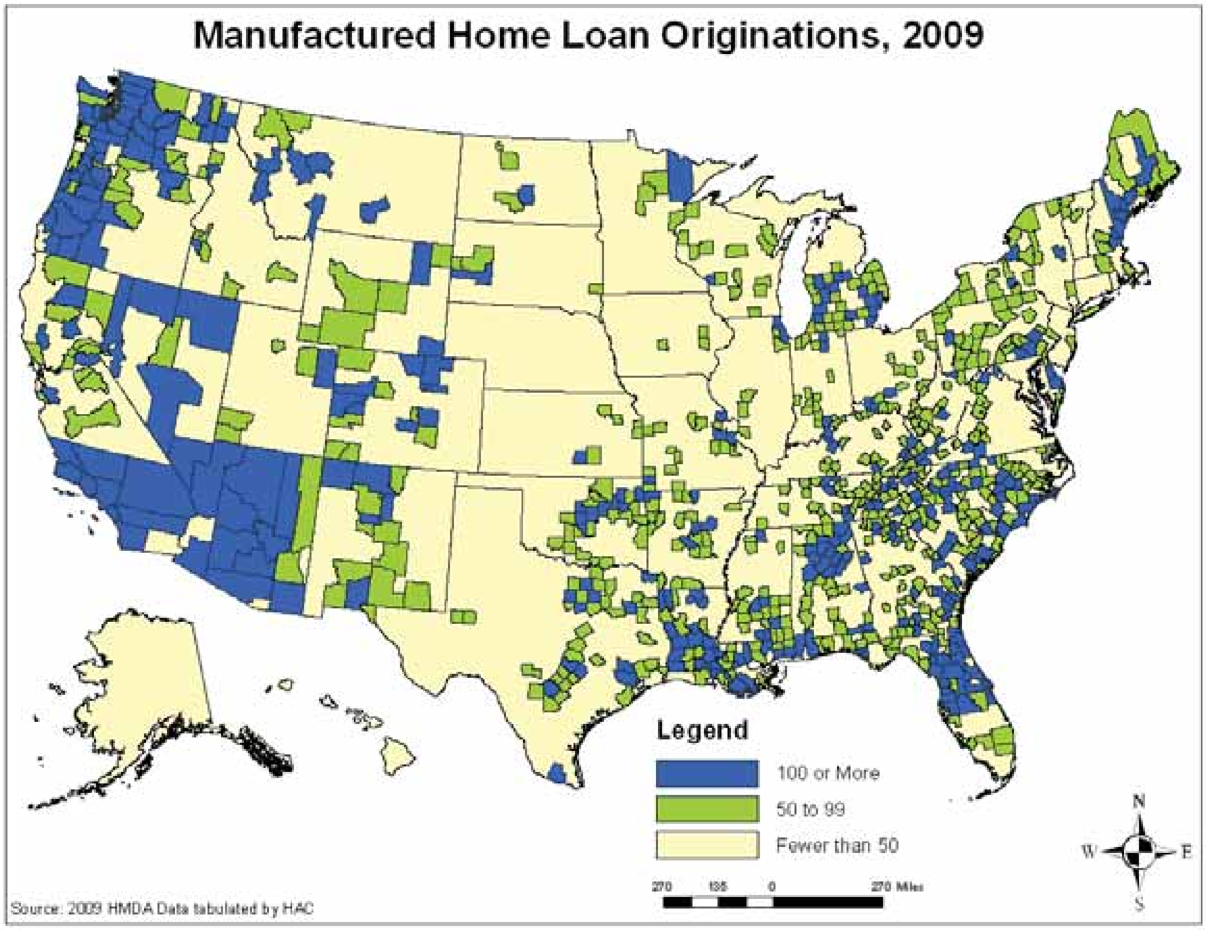
2009 HMDA Records	Counties
Fewer than 10	107
11 to 20	131
21 to 30	108

Manufactured Home Reporting in HMDA

Manufactured homes are an important source of housing, particularly 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, as manufactured homes make up 16 percent of rural homes. 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.

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. These personal property loans generally involve lower down payment costs. However, this loan type typically carries a higher interest rate and shorter term than a conventional real estate mortgage, and is generally considered less beneficial for the consumer. It is estimated that approximately two-thirds of all new manufactured homes are secured through personal property lending.[xii]

The Federal Reserve enhanced HMDA to include reporting that identifies manufactured home loans in 2002. However, the level of information on personal property lending for manufactured homes in HMDA is largely unknown. With the prevalence of personal property lending and the importance of this financing to manufactured housing, reporting of these specific loans should be required and publicly available through HMDA. Additionally, manufactured home loans and applications should indicate whether the loan/application was a personal property or real property (mortgage) loan. The inclusion of these updated and enhanced manufactured home data would provide a much more complete assessment of lending activity nationwide, and particularly in rural areas.



Data on Borrower Credit

Another shortcoming of HMDA is its inability to collect important underwriting information such as the borrower's credit score, loan-to-value ratio, and debt-to-income ratio. Without this information, it is impossible to clearly identify disinvestment or discriminatory practices. HMDA research has indicated that rural residents, in general, receive more high-cost loans than urban residents, and that rural minorities receive more high cost loans than rural whites.[xiii] This is an issue of great interest particularly since some high-cost loans may likely be predatory in nature. Currently, there is simply not enough information to further assess this issue with any specificity. Increased underwriting data would help research and would greatly enhance HMDA's effectiveness.

The Murkiness of Rural Foreclosure

Today, the foreclosure crisis is devastating financial markets, local communities, and individual homeowners across the nation. Foreclosures have impacted rural America too, yet it is difficult to determine the extent and scope of housing distress in rural areas due to a lack of quality data on home mortgage markets and lending activity. Estimates on the number of foreclosures in rural areas vary widely among data sources. Differences in the scope and methodology of data collection contribute to the incongruence in rural foreclosure rates. Most data sources simply do not provide comprehensive foreclosure data for rural communities. As a result, a definitive estimate of the number of rural households experiencing housing foreclosure cannot be specified at this time.

The recently enacted Dodd-Frank consumer protection bill contains a provision that will create a new default and foreclosure database to be jointly administered by HUD and the new Consumer Financial Protection Bureau (CFPB). While details of the proposed database are currently limited, it is hoped that this resource will provide much needed information on the foreclosure situation in rural America. The Dodd-Frank bill also mandates improvements to HMDA.

Actions to Improve Mortgage Reporting in Rural America

Ultimately, financial and mortgage market information is vital to understanding and improving affordable and appropriate lending activity. It is clear that the Home Mortgage Disclosure Act, as well as foreclosure reporting, must be enhanced to better capture home lending activities, especially in rural communities. Specifically, Home Mortgage Disclosure Act data should require reporting from all lending institutions, even small banks located in rural communities. Enhanced reporting of manufactured home loans to include information on personal property lending should also be incorporated into HMDA data. Additionally, comprehensive loan delinquency and foreclosure data should be made available for communities nationwide. These improvements in data collection would greatly advance our understanding of rural home credit markets and help ensure that all residents have access to fair and affordable credit.

NOTES

[i] Federal Financial Institutions Examination Council. *Home Mortgage Disclosure Act: Background and Purpose.* (http://www.ffiec.gov/hmda/history.htm)

[ii] Federal Financial Institutions Examination Council. *Home Mortgage Disclosure Act: Background and Purpose.* (http://www.ffiec.gov/hmda/history.htm). This includes home refinance, home purchase, and home improvement loans. Also, as noted in the September 24, 2010 Federal Register Home Mortgage Disclosure Act; Notice of Hearing, docket No. OP-1388 and RIN No. 7100-AD51 , application information collected entails such things as loan type, purpose, race, sex and annual income. Credit history and debt-income measures are not provided.

[iii] The HMDA data is made available for public access at the Federal Financial Institutions Examination Council, commonly referred to as the FFIEC, website (http://www.ffiec.gov/).

[iv]The HMDA asset threshold is set by the Federal Reserve Board each year. The changes essentially reflect inflation and occur in small increments. For example, the asset threshold was $37 million in 2008 and $36 million in 2007.

[v] Institutions without a branch in an MSA do not have to file HMDA information.

[vi] Housing Assistance Council. 2010. *What Are We Missing? HMDA Asset Excluded Filers*. Report Prepared for the US Department of Housing and Urban Development.

[vii] The $250 million asset threshold was incorporated into the analysis because it is often utilized by regulatory and financial entities to demarcate small banks. For example, under the Community Reinvestment Act (CRA), lending institutions with more than $250 million in assets undergo a CRA exam once every two years. Banks with assets less than $250 million are examined every four or five years.

[viii] Walser, Jeffrey and John Anderlik. 2004. The future of banking in America; Rural depopulation: What does it really mean for future economic health of rural areas and the community banks that support them? *FDIC Banking Review* 16(3): 57-95. The authors note that their analysis shows most banking activity for institutions with assets totaling less than $250 million dollars occurs in the same county with the headquarters (pg. 79).

[ix] Avery, Robert B., Kenneth P. Brevoort and Glenn B. Canner. 2007. Opportunities and issues in using HMDA data. *The Journal of Real Estate Research* 29(4): 352-379. The quote cited above came from page 357. Both Robert B. Avery and Kenneth P. Brevoort are Senior Economists in the Federal Reserve Board's Financial Structure Section Division of Research and Statistics. Glenn B. Canner is a Senior Advisor to the same Federal Reserve Board Division. All three men have written extensively on HMDA and are considered experts.

[x] Federal Register, May 28, 1999 (Volume 64, Number 103), pages 29083 through 29086

[xi] Michael S. Barr, Community Reinvestment Emerging from the Housing Crisis, in Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act, A Joint Publication of the Federal Reserve Banksof Boston and San Francisco, February 2009, http://www.frbsf.org/publications/community/cra/index.html

[xii] U.S. Census Bureau. Manufactured Home Survey, *Selected Characteristics of New Manufactured Homes Placed -2009.* http://www.census.gov/const/mhs/char09.pdf

[xiii] Singleton, Theresa, Lance George, Carla Dickstein and Hannah Thomas. 2006. *Subprime and Predatory Lending in Rural America.* Carsey Institute, Policy Brief No. 4.