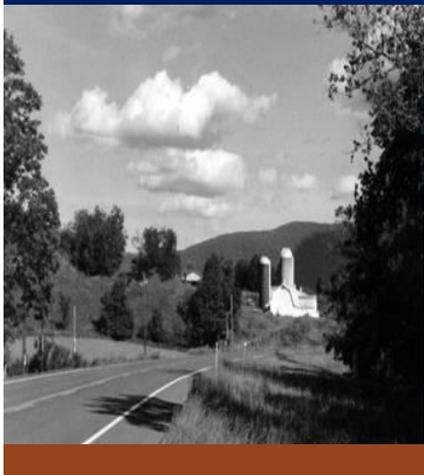


RURAL RESEARCH NOTE

November 2017

HOUSING ASSISTANCE COUNCIL

The Housing Assistance Council (HAC) is a national nonprofit organization that supports affordable housing efforts in rural areas of the United States. HAC provides technical housing services, seed money loans from a revolving fund, housing program and policy assistance, and research and information services. HAC is an equal opportunity lender and provider.



RURAL¹ MORTGAGE ACTIVITY INCREASES, BUT CERTAIN POPULATIONS CONTINUE TO STRUGGLE WITH ELEVATED DENIALS AND HIGH-COST LENDING

The Federal Financial Institutions Examination Council released its most recent figures on home lending and mortgage activity for the year 2016. Approximately 16.3 million loan records filed by 6,762 banks and lending institutions in the United States were recorded as required by the Home Mortgage Disclosure Act, commonly known by its acronym HMDA.² Congress enacted HMDA in 1975 to document how, and to what extent, banks are lending in their communities. Of the loan applications reported through HMDA in 2016, approximately 2 million, or 15 percent, sought funding for homes in rural or small-town communities.³

Rural Home Purchase Lending Continues to Increase

Lending activity has increased for all geographies between 2014 and 2016, but the rural increase lagged suburban and urban activity. Overall, the number of originated home purchase and refinance loans in rural areas increased by 29 percent from 2014 levels,⁴ compared to 44 and 43 percent increases in suburban and urban activity. The differences in overall lending patterns are explained by a larger increase in suburban and urban refinancing, relative to the rural increase. The specific reason for the relatively small amount of rural refinancing is unclear; however, it may primarily reflect that rural markets are not as volatile as suburban/urban home markets.⁵

Rural home purchase lending continued to increase for the fifth year in a row. Fifty-five percent of rural lending in 2016 involved a first lien home purchase loan. This is a dramatic change from 2012 and 2013 when two-thirds of all originations involved refinance. Suburban and urban lending followed a similar pattern. While rural home purchase activity has consistently increased, the volume remains below pre-recession levels. The rural share of all mortgage lending activity has also consistently been smaller than rural areas' 19 percent share of the U.S. population – see the map below, showing loans per 1,000 owner-occupied units.

¹Geographies defined using the Housing Assistance Council's (HAC) census tract classification. See page 113 in HAC's 2012 report, *Taking Stock: Rural People, Poverty and Housing in the 21st Century*, located at: http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf

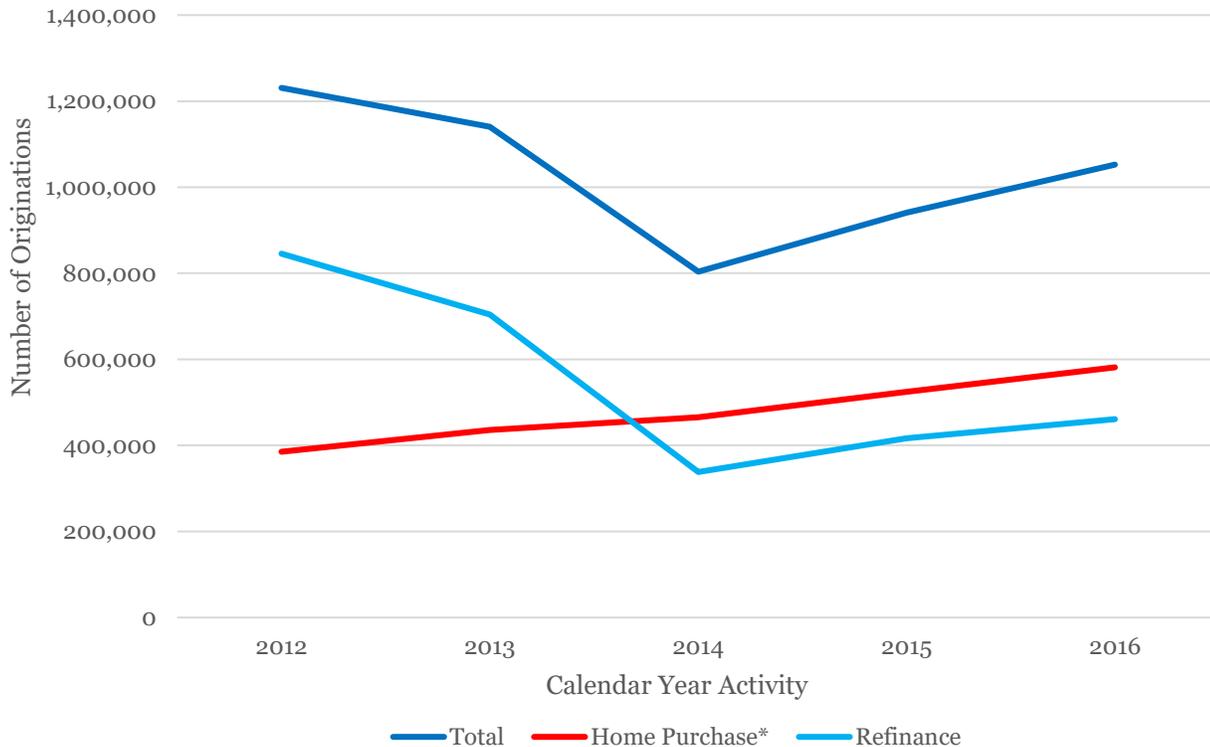
² Federal Financial Institutions Examination Council. 2017. *Home Mortgage Disclosure Act: Background & Purpose* webpage. Accessed 9/28/17 at: <https://www.ffiec.gov/hmda/history.htm>

³ The analysis excludes applications in Puerto Rico and applications with incomplete state-county-census tract (FIPs) codes.

⁴ The data includes only first lien, home purchase, and all refinance loans. The analysis removed all non-first lien home purchase originations to avoid counting piggy back loans, which would essentially double-count a home purchase. Loans involving multi-unit buildings were also removed.

⁵ Specifically, more dramatic home value changes in suburban/urban areas could mean more large fluctuations in refinancing activity.

Rural Mortgage Lending, 2012-2016



Source: HAC tabulation of HMDA data releases 2013-2017, covering lending in calendar years 2012-2016.

Banks and Thrifts Still Originate the Most Rural and Small-Town Loans

Over the last five years, home purchase lending has increased. As the market has improved, the role of private mortgage companies has grown.⁶ Private mortgage companies originated a majority of all home purchase loans in 2016. However, rural communities stand apart from suburban and urban areas in that banks and thrifts (“banks”) originated the largest share of home purchase loans in 2016. Small-asset lenders⁷ made up a disproportionately large share of this rural activity, accounting for 12 percent of rural bank lending, compared to just 7 and 5 percent of suburban and urban bank lending, respectively. This is related to the fact that most small-asset lenders are headquartered in rural communities. Approximately 64 percent of all FDIC-insured lenders are headquartered in rural communities; however, these institutions held only 6 percent of all reported assets as of 2011.⁸

Conventional loans represented 63 percent of all rural home purchase lending, somewhat lower than the corresponding rates for suburban and urban activities at 65 and 70 percent respectively. Conversely, government-backed lending made up a larger share of rural mortgages – consistent with trends over the last three years. U.S. Department of Agriculture Rural Development lending programs,⁹ which target rural populations, originated between 9 and 12 percent of all rural

⁶ Lerner, Michele. 2017. The Mortgage Market is Now Dominated by Nonbank Lenders. *The Washington Post*, https://www.washingtonpost.com/realestate/the-mortgage-market-is-now-dominated-by-nonbank-lenders/2017/02/22/9c6bf5fc-d1f5-11e6-a783-cd3fa950f2fd_story.html?utm_term=.578498367d9e

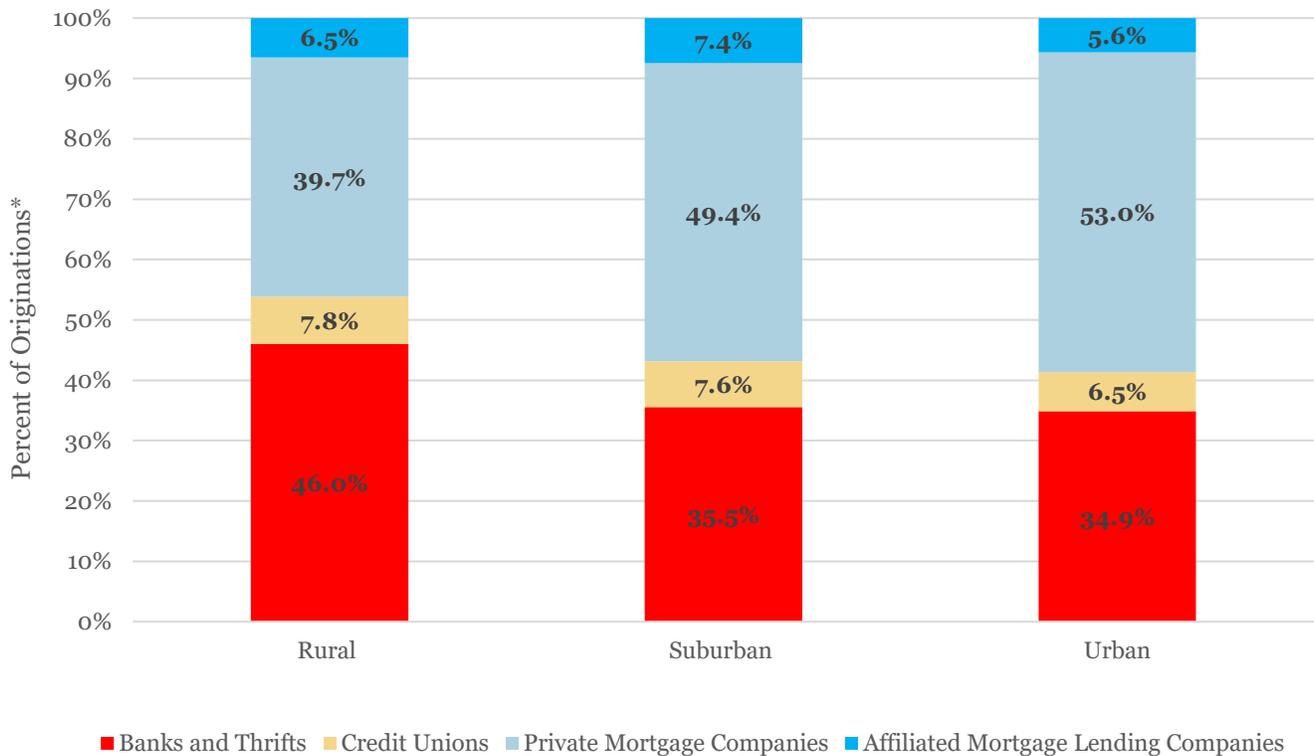
⁷The CRA small bank examination threshold was used to identify small-asset lenders. The threshold changes annually with the 2016 threshold being “less than \$304 million.” For details on examination thresholds, see the following url: <https://www.ffiec.gov/cra/pdf/AssetThreshold2017.pdf>

⁸ Housing Assistance Council. 2015. *CRA in Rural America: The Community Reinvestment Act and Mortgage Lending in Rural Communities*. Published January 2015 by Housing Assistance Council: Washington DC. Report accessed 9/28/17 at the following url: <http://www.ruralhome.org/storage/documents/publications/rrreports/rrr-cra-in-rural-america.pdf>

⁹The data covers the USDA Section 502 guarantee loan program data. For more information on the Section 502 guarantee program see: http://www.ruralhome.org/storage/documents/info_sheets/RD502Guaranteed.pdf

home purchase loans in each of the last three years. Government-backed lending, however, has declined considerably since pre-recession levels, when it made up a majority of all lending.¹⁰

Share of Originated Loans by Lender Type and Geography, 2016



* Originations include first lien, home purchase, and refinance
 Source: HAC tabulation of HMDA 2017 data covering calendar year 2016 activity.

Rural Borrowers Experience Elevated High-Cost Loan Rates

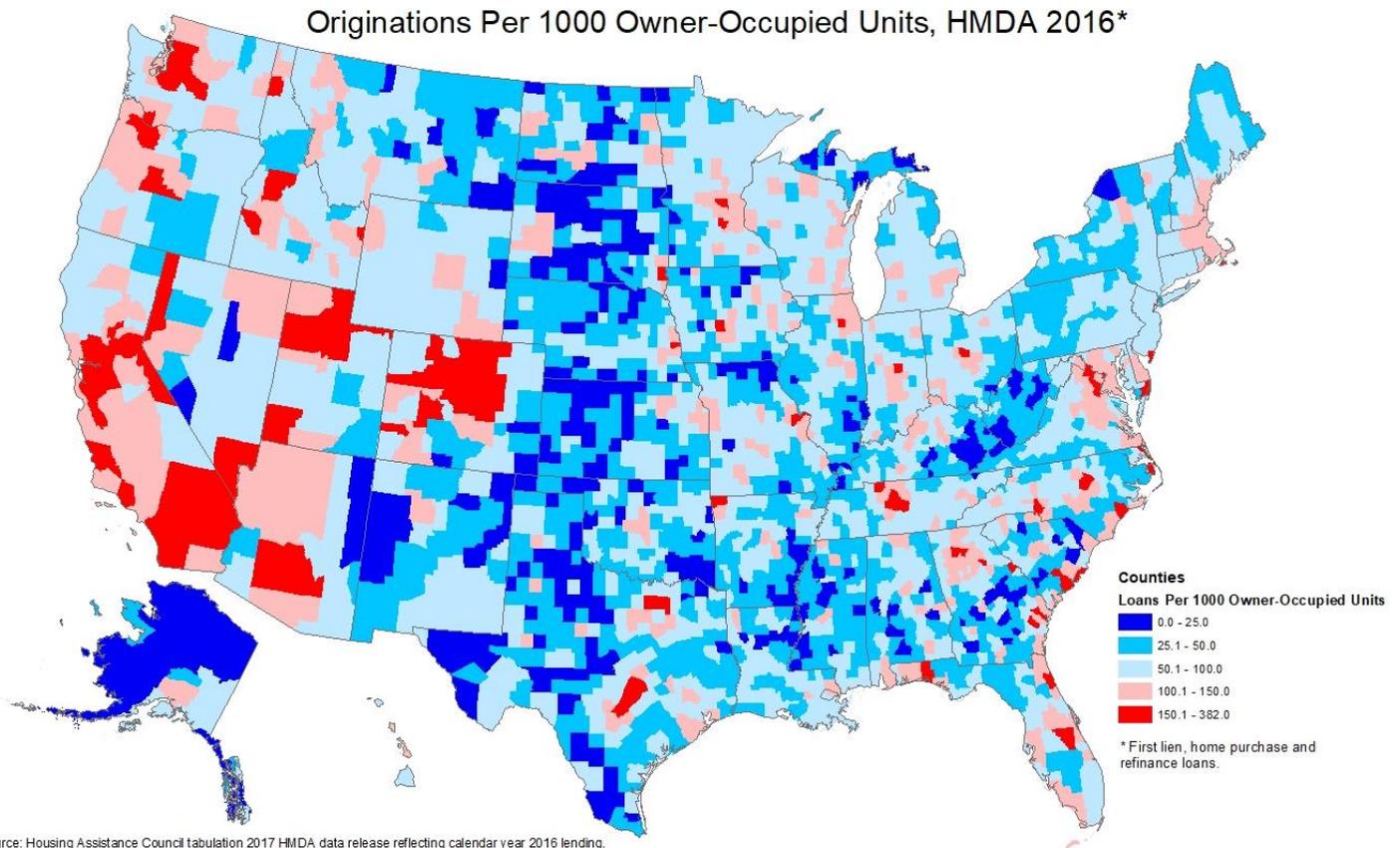
Rural borrowers more often receive loans with more costly terms, often referred to as “high-cost loans.” High-cost loans’ interest rates exceed those charged for similar prime rate loans (1.5 percent points for first liens and 3.5 percentage points for subordinate liens). Nine percent of all rural home purchase and refinance loans were high-cost compared to 5 percent for suburban and urban activity. Lenders originated more than 94,000 high-cost loans in rural areas. The more common occurrence of high interest rate loans in rural areas is, at least in part, attributable to the relatively large number of manufactured homes financed there. Six percent of rural loans involve manufactured homes, compared to roughly 1 percent of suburban and urban originations. Manufactured homes are financed predominately with personal property or chattel loans that have shorter terms and higher interest rates. Over half of all manufactured home loans were high-cost, compared to 5 percent of loans involving one-to-four family properties.

Lending Characteristics in Persistently Poor and Minority Rural Communities

Both denial and high-cost lending rates are particularly acute for rural minorities. Approximately 37 percent of rural African-American and 34 percent of rural American Indian and Alaska Native (“Native American”) applicants were denied mortgages, higher than the rates for both suburban and urban African-American and Native American applicants and

¹⁰ Bhutta, Neil, Steven Laufer and Daniel R. Ringo. 2017. *Residential Mortgage Lending in 2016: Evidence from the Home Mortgage Disclosure Act Data*. https://www.federalreserve.gov/publications/files/2016_HMDA.pdf

nearly twice the denial rates for all U.S. applicants. Rural African-American borrowers were twice as likely to receive high-cost loans as other comparable groups. Of the loans made to rural African Americans, 19 percent were high-cost, compared to 8.5 percent for rural non-Hispanic white borrowers, and 10 and 11 percent for suburban and urban African Americans, respectively. Rural high-poverty regions such as the Lower Mississippi Delta, Central Appalachia, border colonias region, and Native American lands frequently suffer from limited credit opportunities.



Changes Coming to HMDA Data in 2018

The Consumer Financial Protection Bureau (CFPB) assumed rulemaking authority for HMDA in 2011. The CFPB issued new rules in 2015 scheduled to take effect in January 2018. These changes, among other things, include new filing requirement limits, based on the number of loans a depository institution originates. The new thresholds will limit the reporting requirement only to lenders that originate, in each of the previous two years, at least 25 closed-end mortgages or at least 100 open-ended lines of credit. The rule is meant to reduce reporting burdens on small banks that report few loans. Because many of these small-asset lenders likely serve rural and small-town communities, mortgage lending data for rural areas will likely be less comprehensive. A total of 1,319 lenders, or 20 percent of all HMDA reporters, originated fewer than 25 loans in 2016. While in total these institutions originated few loans, less than 15,000, they were responsible for at least one out of every ten loans originated in 20 county markets which means they were an important source of credit to these communities. In many cases, these institutions will not provide mortgage lending information in future.

The above lending volume restrictions are in addition to the previous statutory filing exemptions related to extremely small-asset institutions (\$44 million in 2017)¹¹ and those that operate exclusively outside of metropolitan areas, which disproportionately impact small lenders that operate in rural communities. For example, many of the 623 FDIC-insured lending institutions with assets totaling less than the HMDA filing threshold in 2014 are headquartered in rural counties. These institutions likely represent one of the only sources of credit in some communities. Data is necessary to ensure that

¹¹ The CFPB's most recent announcement on the HMDA asset reporting threshold was accessed 9/28/17 at the following url: <https://www.consumerfinance.gov/2016/12/21/cfpb-announces-annual-adjustments-to-hmda-asset-size-exemption-thresholds/>

these communities and their residents are not overlooked and left behind when it comes to quality, affordable housing and its many related benefits.

FOR MORE INFORMATION ON HMDA MORTGAGE LENDING DATA

Federal Financial Institutions Examination Council (FFIEC) Home Mortgage Disclosure Act website:
<http://www.ffiec.gov/hmda/>

Federal Reserve Board of Governor's annual review of Home Mortgage Disclosure Act (HMDA) Data:
<https://www.federalreserve.gov/publications/bulletin.htm>

Access HMDA Data for your community at HAC's *Rural Data Portal*: <http://www.ruraldataportal.org/>



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