RURAL MORTGAGE ACTIVITY DECLINES. HOME PURCHASES ARE UP, BUT SO ARE HIGH COST LOANS

The Federal Financial Institutions Examination Council released its most recent figures on home lending and mortgage activity for the year 2013. The Home Mortgage Disclosure Act, commonly known by its acronym HMDA, recorded approximately 17 million loan records filed by 7,190 banks and lending institutions in the United States for 2013. HMDA was enacted by Congress in 1975 to document how, and to what extent, banks are lending in their communities. Of the loan applications reported through HMDA in 2013, approximately 2.1 million, or 15 percent, were for mortgage loans in rural or small town communities.

Home Purchase Loans Rise Nationally and in Rural Areas

Many housing markets continue to struggle and recover from the Great Recession. The most recent HMDA data highlights another uneven performance in 2013. Overall, the number of originated mortgage loans in rural areas declined by 14.1 percent from 2012 levels. The drop-off in lending is largely related to refinancing activity. Refinance lending in rural and small town communities declined by 23 percent in 2013 from 2012 levels. These rural figures parallel national trends.

Rural and small town home purchase lending, on the other hand, increased by 2.3 percent from 2012. After reaching a ten-year low in 2011, rural home purchase loans increased for the past two years to 440,489 in 2013. While these trends suggest an improvement in home sales, rural and small town home purchase loans remain 52 percent below the pre-recession levels of 2006. Home purchase loans continue to make up a relatively small portion of all HMDA reported originations when compared to refinance activity, 35 percent and 57 percent respectively.
Conventional Lending Continues A Slow Rebound

During the Great Recession, the Federal government’s role in home lending grew substantially through the Federal Home Administration (FHA) mortgage insurance program, the Department of Veterans Affairs (VA), and Department of Agriculture’s (Farm Service Agency or Rural Housing Service) loan guarantee programs. Up to 90 percent of first lien, home purchase loans involved a conventional loan before the recession, but had declined to just over 50 percent by 2009.\(^1\)

Over the last three years, conventional home purchase lending has steadily grown as government assisted lending has decreased. Rural and small town conventional home purchase originations increased by 14 percent while government supported originations declined by 17 percent. The overall level of conventional lending, approximately 282,000 originations in 2013, is still just 41 percent of what it was in 2004, two years before the pre-recession peak of 2006. To put this level of decline in perspective, it would take approximately nine years for the number of conventional purchase loans to exceed their pre-recession level given the current rate of increase.\(^2\)

\(^1\) The data are restricted to first lien home purchase loans to focus on home purchase activity. In addition, removing second liens helps remove piggyback loans and mitigate double counting.

\(^2\) There has been an annual average increase in conventional loans during the last two years of 11.11 percent. With an 11.11 percent annual increase of conventional loans from 2014 on the total would exceed 690,000 (2004 total) in 2023.
Loan Denials and High Cost Mortgages Remain High in Rural America

Loan denial rates remain high for rural and small town borrowers. Nineteen percent of rural home purchase loan applications in 2013 were denied compared to 13 percent for suburban and urban borrowers. Twenty-one percent of all home purchase loan denials, representing 128,629 applicants, involved a rural and small town borrower. Credit history was the reason cited most frequently for home purchase loan denials. Approximately 22 percent of denied mortgage applications in rural and small town areas cited bad credit history. Lenders cited debt-to-income ratio concerns as the second most common reason for rural and small town home purchase denials at 15 percent. Poor economic conditions and limited opportunity plague many rural communities and often lead to credit and debt problems.

If rural borrowers were approved for a loan, they were more likely to have higher interest rates than their urban or suburban counterparts. Approximately 11 percent of rural home purchase originations were classified as “high-cost” loans, or having an interest rate at least 150 basis points (for first-lien loans, or 350 basis points for subordinate-lien loans) higher than the annual percentage rate offered on prime mortgage loans of comparable type. The incidence of high-cost lending in rural areas is considerably higher than the suburban or urban level at 7 percent. Higher mortgage rates in rural areas are attributable in part to a large number of financed manufactured homes which are more prevalent in rural communities. Manufactured homes are predominately financed with personal property loans that have shorter terms and higher rates. In addition to having an extremely high loan denial rate of 38 percent, roughly half of rural manufactured home purchase originations reported to HMDA in 2013 were classified as high-cost loans.

Loan denial and high cost lending rates were particularly acute for rural minorities. Approximately 41 percent of rural African American, and 36 percent of Native American applicants were denied mortgages – twice the denial rate for all U.S. applicants. Likewise, rural African American and Native American borrowers were almost twice as likely to receive a high cost home loan than rural non-Hispanic whites. Fifteen percent of rural African American loans were classified as high cost compared to eight percent for suburban/urban African Americans. 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.
Gaps and Limitations in Rural Mortgage Reporting

While HMDA data are a critical resource to understanding lending trends, there are distinct limitations of these data in rural areas. There are two major exemptions that limit rural coverage. Generally, financial institutions with assets less than $43 million or those that operate exclusively outside of metropolitan areas are not required to report to HMDA.

These exemptions disproportionately impact small lenders that operate in rural communities. For example, of the 623 FDIC-insured lending institutions with assets totaling less than the HMDA filing threshold in 2014, many are headquartered in rural counties. 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. A 2010 analysis by HAC indicated that approximately 81 percent (over 3,000) of all institutions headquartered in nonmetropolitan counties had less than $250 million 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. Consequently, many of these rural lenders likely qualify for the HMDA filing exemption.

Ultimately, quality and accurate data is needed to better understand and address fallout from the mortgage crisis. A comprehensive understanding of mortgage performance for the entire United States, including rural areas, is essential for returning to healthy housing and mortgage markets.
FOR MORE INFORMATION ON THE ISSUE OF RURAL MORTGAGE LENDING


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

To view how many High Cost loans were made in your community, access HAC's Mapping Rural America application: http://hac.maps.arcgis.com/home/webmap/viewer.html?webmap=dcf951a5125d4ea3b3acd5454af634fb

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