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RURAL MORTGAGE ACTIVITY INCREASES, BUT HIGH COST LOANS AND DENIALS ARE STILL PROBLEMATIC

The Federal Financial Institutions Examination Council released its most recent figures on home lending and mortgage activity for the year 2012. The Home Mortgage Disclosure Act, commonly known by its acronym HMDA, recorded approximately 18.7 million loan records filed by 7,400 banks and lending institutions in the United States for 2012. 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 2012, approximately 2.4 million, or 16 percent, were for mortgage loans in rural or small town communities.

Mortgage Activity is on the Rise Nationally and in Rural Areas

Housing markets were at the heart of the recent recession, and the economic crisis substantially impacted mortgage access and provision. In rural areas, applications for home purchase loans declined by more than half between
2003 and 2011. But in 2012, the number of rural mortgage applications increased by 19 percent from 2011 levels, and the number of actual mortgage originations (loans made) were up 27 percent from the previous year. While these trends are consistent with improved housing market conditions across much of the nation, mortgage activity in rural America is still well below the levels of the mid 2000s. In many respects, that’s probably a good thing. Over the past decade, unprecedented and often unsustainable housing prices, combined with loose credit and underwriting practices precipitated the foreclosure crisis that depressed housing markets and displaced millions across the nation.

**Loan Denials and High Cost Mortgages are Still Problematic for Many in Rural America**

Rural mortgage applicants - as has traditionally been the case - found it more difficult to get a home loan than suburban or urban borrowers. Twenty-one percent, or roughly 500,000 rural applicants, were denied a home loan in 2012. The rural loan denial rate was three percentage points higher than the overall U.S. rate of 18 percent. Credit history was the reason cited most frequently for home purchase loan denials. Approximately 40 percent of denied mortgage applications in rural and small town areas were based on bad credit history or a high debt to income ratio in 2012.

If rural borrowers were approved for a loan, they were more likely to have higher interest rates than their urban or suburban counterparts. Six percent of rural mortgage originations were classified as “high-cost” loans, or having an interest rate at least 1.5 percentage points for first-lien loans (3.5 percentage 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 twice as high as the national level at 3 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. Roughly 37 percent of rural manufactured homes reported to HMDA in 2012 were classified as high cost loans.

Loan denial and high cost lending rates were particularly acute for rural minorities. Approximately 40 percent of rural African American, and 35 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 also twice as likely to receive a high cost home loan than rural white not Hispanics. Rural high poverty regions such as the Lower Mississippi Delta, Central Appalachia, Border Colonias Region and Native American Lands frequently suffer the most 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 $41 million or those that operate exclusively outside of metropolitan areas are not required to report to HMDA.

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. 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 understand and address the mortgage default and foreclosure crisis. More importantly, a comprehensive understanding of mortgage performance for the entire United States, including rural areas, is essential for returning to healthy housing and mortgage markets.

Contact Us

Housing Assistance Council
1025 Vermont Avenue, Northwest
Suite 606
Washington DC 20005

202-842-8600
hac@ruralhome.org
www.ruralhome.org

For More Information on the Issue of Rural Mortgage Lending

