Dear Friends,

Over the last few decades, financing the development, operation, and preservation of affordable housing in the United States has become increasingly complex. In rural America, providers have learned how to supplement federal housing resources with debt and equity from private lenders, state agencies, quasi-governmental entities, and other federal agencies. The resulting network of applicable laws and regulations has changed since the Great Recession of 2007–2009, particularly since enactment of the Dodd–Frank Wall Street Reform and Consumer Protection Act in 2010. What does this mean for rural housing finance and its future?

This issue of Rural Voices tackles this question from a variety of perspectives. Beginning with an overview of current trends and challenges, authors consider financing for both homeownership and rental housing for lower-income rural residents.

Some of the articles in this issue address Dodd–Frank, agreeing that it has changed the landscape, although they have different opinions about those changes. A member of the U.S. Senate committee responsible for housing finance – the Committee on Banking, Housing, and Urban Affairs – contends Dodd–Frank has made affordable housing lending too expensive and burdensome for community-based lenders. An expert on manufactured housing and a consumer protection advocate assert that Dodd–Frank’s finance changes are aiding residents without damaging lenders.

The magazine also touches on the roles of the secondary market giants Fannie Mae and Freddie Mac, as well as state housing finance agencies, intermediary organizations, and local nonprofits. HFAs can supplement other resources for both affordable housing producers and consumers. Nonprofit intermediaries can provide both financial resources and technical assistance to local nonprofits and mission-oriented companies. Those on-the-ground housing groups are the ones who put all the pieces together.

This, then, is what the future of rural affordable housing finance looks like: federal, regional, state, and local entities, public and private, partnering despite differences in political perspectives, to offer decent, affordable homes for rural Americans.

Sincerely,

Andrew Bias
Chair, Board of Directors

Peter Carey
President, Board of Directors

Moises Loza
Executive Director
Dear Friends

The Realities of Housing Finance in Rural America
Private financing is essential, but changes are needed to make it more feasible.

The Secondary Market Works for Affordable Rural Housing
Freddie Mac works to help make financing available for single-family and multifamily properties.

There's Never Been a Better Time for Obtaining Rural Multifamily Financing
Fannie Mae is optimistic about the potential to support the development of more affordable rural rental housing.

Rural Housing Finance - One Size Does Not Fit All
State housing finance agencies can help fill gaps to address smaller-scale rural housing needs.

Qualified Mortgage Rule is a Win-Win
Recent regulations have improved home mortgage financing for lenders and consumers.

HAC Facts
The Realities of Housing Finance in Rural America

By Senator Jerry Moran

Private financing is essential, but changes are needed to make it more feasible.

Sod. Boxcars. Stone. Wood. Canvas. Kansans had utilized all of these materials in the construction of their homes before we were even recognized as a territory. As the pioneers of our great state learned, shelter from the temperamental Kansas weather patterns was a primary need for survival.

That need for housing is just as great today as rural America fights for its own survival. My travels around the state of Kansas date back to my time as the congressman for “The Big First” district. At that time, it was a collection of 69 largely rural counties dominated by fields of grain, pastures of cattle, and oil and gas wells. My conversations with community leaders as their congressman were no different than they are now as their senator. How do we make certain that the next generation has the opportunity to continue to enjoy the special way of life we have cultivated in rural Kansas?

The most common answer to that question often centers on the availability of housing. One of the most consistent concerns expressed to me by city councils, county commissions, and local economic development directors is the lack of available housing stock, which hampers these local leaders’ ability to recruit job creators to their communities.

Once this need has been identified, however, the difficult task of finding solutions begins. Federal programs like the Low Income Housing Tax Credit and the HOME Investment Partnerships Program are useful tools for developers and local governments who augment these resources with additional credit from banks and credit unions when available. For example, Ulysses, Kansas has begun construction on a number of workforce housing units utilizing a blend of financial tools that include federal components. However, it is clear that the need far outstrips the availability of these programs. So why isn’t private investment jumping at this opportunity to fill a necessary void?

As a member of the Senate Committee on Banking, Housing and Urban Affairs, I work to make certain that rural interests are represented. In past hearings on housing finance issues, I have questioned large developers about the relative lack of attention paid to rural housing projects. The typical response I receive is as obvious as it is frustrating. I am told that there is very little incentive, from a business standpoint, to make the investment in rural America due to the economies of scale. Simply put, the costs associated with rural construction cannot be
offset due to the relatively low number of units needed compared to larger population centers.

So how do we empower local builders to partner with their communities to fill this need? The answer to this question is largely tied to the cost and availability of local credit. New regulations put in place following passage of the Dodd–Frank legislation disproportionately affect our community banks and credit unions. Our local lenders are increasingly being squeezed out of their own housing economies because the cost of complying with these new rules, coupled with the fear of the consequences if they were to make an honest mistake, prevents them from serving their communities as they have always done. When the Senate Banking Committee was exploring changes to the secondary mortgage market, I sought the feedback of numerous Kansas lenders. I was surprised to frequently hear the response, “Oh Senator, we don’t do home loans anymore.”

To hear that local lenders are no longer in the business of financing the purchase of a home because of how they are treated by their government is terribly damaging.

While my Senate colleagues and I have introduced a number of bills to relieve this burden, it is clear to me that one piece of legislation is not going to provide the comprehensive solution to the growing rural housing problem. Rather, it will take a mixture of legislation, appropriate regulatory changes, and perhaps most importantly, a growing economy to solve this issue.

But just as those early Kansas sodbusters refused to give up on their dreams of making a life for themselves and their posterity, so too will I remain steadfast in my work in the United States Senate so that all who care to share in that special way of life we live in Kansas can do so now and in the future.


Senator Jerry Moran, a Republican, represents the state of Kansas in the U.S. Senate.
Assessing the Future of Housing Finance

Amidst an Ongoing Recovery

by Jonathan Spader, Shannon Rieger, and Christopher Herbert

In considering the future of housing finance in rural communities, it helps to begin with an understanding of the conditions and trends in the housing market relevant to policymakers, housing advocates, and the private sector. The recently released Joint Center for Housing Studies (JCHS) annual report, *The State of the Nation’s Housing*, highlights that even as the housing recovery continues to gain momentum, the country faces several significant challenges.

The homeownership rate’s decline has continued into 2016, despite evidence that many households would prefer to own a home. Meanwhile, record numbers of renters are paying excessive shares of their income for housing, causing difficult tradeoffs in households’ budgets and forcing many renters to settle for poor quality homes.

Over the next few decades, the country will also see a substantial increase in the senior population, raising concerns about whether these households will be able to secure safe and affordable housing that supports continued connection with their communities.

The availability and cost of financing play a critical role in addressing each of these issues. While the housing finance system has undergone dramatic changes in recent years through implementation of the Dodd-Frank Act and conservatorship of the government-sponsored enterprises, there are substantial changes yet to come. As a result, it is an ideal time to take stock of the housing challenges facing rural communities and the implications for housing finance.
The Homeownership Rate Continues to Decline

The rural homeownership rate has continued to decline for nearly a decade. According to Current Population Survey data, the homeownership rate for nonmetropolitan counties fell to 71.6 percent in 2015, a decline of 4.9 percentage points from its high in 2006 (Figure 1). While the rural homeownership rate remains higher than the national rate, the size of its decline is roughly equivalent to the 4.9 percentage point decline over the same period for the U.S. overall.

This decline in homeownership raises important questions about future demand for homes and mortgages. First, the past decade has seen millions of households lose their homes to foreclosure, forcing these households to transition to renting or to move in with family or friends.

Whether they will seek to return to homeownership in coming years is not yet clear. A combination of credit repair programs, rehab loan products, and expanded rental housing options will likely be necessary to meet the housing needs of this group.

More broadly, tight credit conditions, weak income growth, and a limited supply of available homes present important sources of uncertainty about future levels of homeownership. In the wake of the foreclosure crisis, lending standards tightened quickly and have not yet loosened substantially. Instead, measures of mortgage credit availability from both the Mortgage Bankers Association and the Urban Institute suggest that credit standards have loosened only slightly in recent years.

The share of first-lien home purchase mortgages made to homebuyers with credit scores below 660 declined from 16 percent in 2010 to 10 percent in 2014, and loans to borrowers with credit scores below 620 have virtually disappeared. Recent attempts to increase access to homeownership have primarily sought to reduce the size of down payment requirements, with Fannie Mae, Freddie Mac, Wells Fargo, and other institutions introducing mortgage products with 3 percent down payment requirements in 2015. However, continued foreclosures, stagnant incomes, and other factors have thus far prevented the homeownership rate from stabilizing.

Renters Increasingly Face Cost Burdens

Concurrent with the homeownership rate’s decline, tight rental markets and stagnant incomes have combined to push renters’ housing cost burdens upward. In 2014, 41 percent...
of renter households in nonmetropolitan counties faced housing cost burdens (paying more than 30 percent of income for housing), up more than 3 percentage points from the peak of the housing boom in 2006. Moreover, 22 percent of renter households in 2014 faced severe cost burdens (paying more than 50 percent of income for housing).

By comparison, the cost burden rates of rural homeowners declined between 2006 and 2014, reflecting a combination of home price declines, low interest rates, and changes in the composition of the homeowner population. In 2014, 21 percent of homeowner households in nonmetropolitan counties faced housing cost burdens, including 9 percent with severe cost burdens.

To reduce cost burdens, households frequently must sacrifice location or housing quality, with quality issues a particular concern in rural areas. Using the American Housing Survey’s definition, 5 percent of occupied housing units in nonmetropolitan counties were in inadequate condition at the time of the last measure in 2013. In many areas, manufactured housing can provide an important tool for adding to the supply of affordable housing units. However, the existing stock of manufactured housing units currently suffers from elevated rates of housing inadequacy, with 29 percent of occupied units built before HUD set federal design and construction standards in 1976.

Aging Baby Boomers Will Dramatically Increase the Elderly Population

Looking further into the future, the aging of the Baby Boomer generation will dramatically increase the share of older adults in the population, a trend that is particularly sharp in rural communities. The first wave of the Baby Boomer generation turned 65 in 2011, and according to preliminary JCHS projections, over the next decade, the number of households headed by a person aged 70 or older will grow by more than 8 million, an increase of more than 40 percent. In rural communities, this wave of Baby Boomers has visibly shifted the age structure of the population over time and will continue to do so as these households enter their 70s and 80s (Figure 3).

Over the next 10–20 years, this demographic shift will create rising demand for credit products that help older households age safely and comfortably in place, such as reverse mortgages, home equity lending, and other financing options that support age-friendly home modifications. Given the existing shortage of accessible rental units, the aging of this cohort will also increase the need for accessibility modifications to the rental stock, as well as new construction of accessible units. Unfortunately, recent cuts have
reduced public funding for both accessibility modifications and construction of assisted units.

Lastly, housing affordability issues are likely to present an increasing challenge as Baby Boomers reach older ages and see their incomes fall and housing cost burdens rise. In 2014, nearly 20 percent of households aged 80 and over faced severe housing cost burdens, compared to 15 percent of households in their 60s and 70s. Baby Boomers are also entering retirement with more mortgage debt than previous generations, which may add to their affordability challenges in coming years.

The Changing Landscape of Housing Finance

The trends described in the previous sections highlight several of the challenges that will face the housing finance system in coming years. In particular, they point to the need for financing options that ensure that mortgage credit is broadly accessible and affordable, that support the development of affordable rental units, and that help older adults age comfortably and safely in place.

In addressing these needs, the ongoing evolution of the housing finance system presents both opportunities and challenges. For example, implementation of the Dodd-Frank Act and other reforms have required important accommodations that recognize the unique role community banks and other small lenders play in meeting the credit needs of rural communities. In coming years, further reforms to the housing finance system will likely require continued attention to the needs of small lenders. Conversely, the proposed “duty to serve” rule may add a valuable tool for increasing access to credit in rural areas, establishing a duty for Fannie Mae and Freddie Mac to serve underserved markets including manufactured housing and rural areas.

Taken together, the themes we have touched on in this article provide a starting point for understanding future challenges that will face the housing finance system in serving rural communities. Only time will tell how these and other trends play out in coming years.

FIGURE 3
Aging Baby Boomers will reshape demand for housing finance in rural communities.
Percent of households in nonmetropolitan counties by age of household head


Jonathan Spader is a Senior Research Associate, Shannon Rieger is a Research Assistant, and Christopher Herbert is Managing Director at the Joint Center for Housing Studies of Harvard University.
The Secondary Market Works for affordable rural housing

Freddie Mac works to help make financing available for single-family and multifamily properties.

Editor’s note: Rural Voices posed a series of questions to two Freddie Mac representatives. Corey Aber works in multifamily housing and Mike Dawson covers single-family housing.
What changes have you seen related to the provision of finance for affordable rural housing in the past five years or so?

Corey Aber: Finding suitable and affordable rental housing in rural areas is a persistent challenge. Freddie Mac is committed to help improve the situation, and in the past two years has started two multifamily programs that are making a difference: the Manufactured Housing Community (MHC) program, which supports community operations and infrastructure, and the Small Balance Loan (SBL) program, which focuses on loans ranging from $1 million to $5 million, at times for smaller properties with between five and 50 units.

Let’s focus on the MHC program here. MHCs are an important source of unsubsidized affordable housing in rural markets. Around 7 million households live in MHCs nationwide, many in rural areas. In general, MHCs form a higher percentage of multifamily units in rural areas than they do in suburban and urban areas.

Entering this market in 2014, we took a deliberate approach to designing the program to be relevant and meaningful. For example, we focused on MHCs that serve low- and moderate-income families rather than on luxury and age-restricted MHCs. Also, because it is important to accommodate the renters in these communities, up to 25 percent of the homes on a property may be rentals. Borrowers benefit from our competitive pricing; our presence has driven rates down across the entire market. This makes for a stronger MHC market across the nation that helps make a positive difference for the people who live in these communities.

Mike Dawson: Freddie Mac also constantly explores new or enhanced ways to promote affordable single-family homeownership responsibly, and we’ve sharpened our focus on rural markets. We actively promote responsible lending to help people in rural markets buy single-family homes. Our Home Possible® products are designed to support first-time, low- and moderate-income, and rural homebuyers. The down payment can be as little as 3 percent of the home purchase price and may come from
multiple sources, including gifts from family and grants from government agencies. We work with community lenders, credit unions, and state and local housing finance agencies in addition to larger lending institutions nationwide to build awareness that it’s possible to buy a home with a low down payment and to purchase mortgages on rural single-family homes.

All of that said, a real challenge for lenders who want to sell single-family mortgages into the secondary market is appraisals. Rural single-family properties often lack nearby comparables, which makes it difficult to appraise a property’s value accurately. Freddie Mac provides training specifically to address appraisal questions and clarify misconceptions associated with selling rural property loans to us.

Moreover, technology and data standards are helping to address the appraisal challenge. Through the industrywide Uniform Mortgage Data Program® we’ve automated the exchange of information and set standards for the types of information collected at each step. The program includes the Uniform Appraisal Dataset, which helps ensure consistency and accuracy in the data collected. Having it integrated into our end-to-end Loan Advisor Suite® tool set gives the lender and us more certainty, efficiency, usability, and reliability in making mortgage-related decisions.

**What changes related to the provision of finance for affordable rural housing do you expect in the next five years?**

**CA:** We’re glad to see that rural housing has been gaining some important public attention recently, which aligns with our heightened focus. While we have increased our support for rural multifamily rental housing, we recognize that more needs to be done. Supporting rural affordable housing is an important part of our public mission to expand access to housing finance responsibly and to promote opportunity, social and economic mobility, and sustainability. Given this, you can expect Freddie Mac to continually look for ways to increase our presence in rural markets.

**MD:** A window of opportunity is opening for community lenders and others who operate in underserved areas. According to the Mortgage Bankers Association, the origination share of the nation’s top 10 lenders has dropped from around 74 percent of the nation’s mortgages in 2007 to 52 percent today. The gap they left is being filled by community banks, mortgage banks, and other types of lenders.

For small and medium-sized lenders looking for responsible and cost-effective ways to build their businesses, affordable lending could be an option. Expanding homeownership responsibly helps stabilize communities and helps people realize the dream and benefits of owning their own homes.

**What do you see as the greatest successes related to affordable rural housing for the secondary market right now, and the greatest challenges?**

**CA:** The success of our Manufactured Housing Community and Small Balance Loan programs has increased financing for rural affordable housing options – and it shines a light on the need for such financing and offers templates for broader support.
Community and regional lenders have provided a good basis for local lending. But having a large national lender participating in smaller markets and applying consistent standards is critical to expanding access to credit in rural areas. In addition, most loans that we buy are eligible for securitization. This attracts private capital to the market and reduces our – and, therefore, U.S. taxpayers’ – credit risk.

MD: It’s been seven years since the recession officially ended and we’re just now seeing a recovery in the affordable-lending ecosystem for single-family homes. All of the participants – financial institutions, private businesses, nonprofit organizations, real estate professionals, public agencies, and other enterprises that make affordable homeownership possible – are starting to work together again. Collaboration and coordination are keys to helping potential homeowners along their journey toward homeownership. Freddie Mac can act as a catalyst, given our business and relationships across the ecosystem.

CA: And trends that are reshaping the housing industry nationally are also affecting rural communities, some more than others. In rural housing, local differences cannot be overstated, but some challenges are broadly similar:

- aging and declining population;
- challenging economies;
- aging housing stock;
- limited access to public utilities in some areas;
- minimal construction financing; and
- limited public subsidy.

Multifamily housing relies on having a concentration of people, and with an aging and declining population, it will become increasingly difficult to support. Another important point: although the cost of living and, therefore, incomes tend to be lower in rural areas, it doesn’t cost proportionally less to build, rehabilitate, and/or maintain safe, decent housing in rural areas than in other, more populated areas. This exacerbates affordability challenges for residents, especially those most in need, and highlights the importance of public subsidies to keep rents affordable.

In fact, much affordable rural multifamily housing depends on federal and local subsidies, whether through Low Income Housing Tax Credits or federal agency support. Still, the amounts received are considered by many observers as insufficient to provide and maintain safe, decent, and affordable rural rental housing.

It will take creative thinking and partnerships among private and public organizations to address this need. As you know, being in conservatorship, we cannot advocate for or comment on public policy. But we can, do, and will continue to work with others across the industry and in communities to maximize the benefits of subsidies and help develop initiatives to achieve more in rural areas in the coming years.
For a number of years, Freddie Mac, as a government-sponsored enterprise, has been obligated to meet specific affordable housing goals. How have your activities under the goals impacted rural places? Do you expect the same kinds of impact going forward, or might there be changes?

**CA:** Commitment to affordable housing is fundamental to who we are. About 90 percent of the multifamily loans we buy, on average, help finance units that are affordable to low- and moderate-income households. Many of the rural properties we support would qualify toward the affordable housing goals that the Federal Housing Finance Agency sets for us. Regardless of the affordable housing goals, though, we are sharpening our focus on affordable rural multifamily rental housing because it is vital to rural communities nationwide and integral to fulfilling our mission.

**MD:** In our single-family business, the spectrum of programs, products, and services we provide to the entire residential market also supports reaching our affordable housing goals. In addition to the low down payment product I mentioned, housing counseling through Freddie Mac’s Borrower Help Centers and call-in Borrower Help Network, education opportunities, our CreditSmart financial literacy curriculum, online resources, and other services and tools will continue to be a mainstay of our support for all markets.

In addition to the goals, the new duty to serve regulations will require Freddie Mac to take actions with respect to rural and underserved places, rental preservation, and manufactured housing. How do you expect activities in each of these three markets to impact rural areas?

**MD:** We don’t look at duty to serve (DTS) as a discrete activity or requirement. Rather, many components of our efforts around manufactured housing, rural lending, and preservation already are woven into the fabric of our business. However, we also recognize that DTS involves additional unique requirements and are working with industry, community, and housing intermediaries to develop and enhance programs that will enable us to further support rural areas. We are well positioned to act as a catalyst – to bring together key stakeholders and combine and coordinate our efforts to make more of a difference in these areas.

**CA:** Duty to serve is in line with our public mission, and we are looking at all options available to us to support rural communities. In rental preservation, it means continually looking for ways to maximize the benefit of public subsidies to help keep existing affordable housing viable. For MHCs, it means continuing to support workforce MHCs (those affordable to low- and moderate-income households) nationwide and helping the market for MHCs owned by their residents grow and thrive. For underserved areas, it means thinking creatively and looking beyond housing to develop partnerships that address the broader needs of the local residents and communities.
Are there challenges related to rural affordable housing finance that the secondary market can’t help with? How can those be addressed?

CA: As vital as the secondary market is to affordable housing finance in terms of providing access to credit and liquidity, setting standards, and reducing financing costs, we can’t do what we do without active participation of lenders and investors. Both of these groups inform where we have a presence and how affordable that presence will be.

To lend in remote areas, for example, we need lenders active in those areas and meeting our quality standards so that we can buy the mortgage loans they make to eligible borrowers. We are looking for ways to increase access to finance in such areas, but can’t do it alone.

We pool and securitize most of the loans that we buy, and investors buy those issuances. This brings in more capital; in turn, it lets us keep our pricing very competitive and finance more loans, while distributing a large majority of our credit risk off of our books and, therefore, away from taxpayers. Investors tend to be very interested in our securities, but it may take some time to identify investors and build interest in the capital markets when we introduce new and creative solutions.

MD: We’ve also had discussions at Freddie Mac around the fact that it’s not enough to focus just on housing in many rural and underserved areas, and we’re exploring how else we might engage or bring additional attention and support.

CA: That’s right. Affordable housing is fundamental to stable, sustainable communities and is a gateway to opportunity and mobility, but it isn’t the only factor. For example, without basic infrastructure (safe drinking water, roads, utilities), it’s difficult to lend responsibly on housing. Therefore, addressing infrastructure issues will likely be prerequisite to fully developing a secondary housing finance market in areas of acute need. That said, we’re looking for ways, within our charter and regulatory framework, to build partnerships and help foster this necessary work.
Fannie Mae understands that the affordable housing crisis is just as pervasive in rural America as it is in other parts of the country, and we are very focused on addressing the affordable housing needs in our rural markets.

One of the best ways for us to do that is to provide more competitive debt financing for smaller, rural properties. At Fannie we have increased our focus on small loans, streamlined many of the requirements for our

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There’s Never Been a Better Time for Obtaining Rural Multifamily Financing

By Tim Carpenter

Fannie Mae is optimistic about the potential to support the development of more affordable rural rental housing.
Affordable debt financing is only one part of the solution. Addressing affordable rental housing in rural markets requires the assistance of state, local, and federal programs. Low Income Housing Tax Credit equity, USDA RD’s Section 515 and 538 programs, property tax abatements, and other state and local housing assistance programs are critical to support rural housing needs, and at Fannie Mae we are committed to ensuring that our financing can leverage these programs.

Unfortunately the limited amount of subsidy available particularly impacts the pace of new development and affordable preservation in rural and nonmetro areas. For example, the July 2016 Novogradac & Company *Journal of Tax Credits* estimated that nationwide the price paid for Low Income Housing Tax Credits is as much as 15 cents less per credit in nonmetro markets. We also need to learn more about how to meet the needs of rural communities and to become more effective at partnering with the developers, owners, and lenders who are committed to serving rural America.

We are optimistic about the potential to support the development of more affordable rural rental housing. Where some see challenges, we see opportunities. Fannie Mae is committed to working with strong rural partners to take advantage of these opportunities to improve rental housing affordability in rural markets across the United States.

Multifamily Affordable Housing loans, and are pricing competitively. Keep in mind the size of a rural loan doesn’t matter since Fannie Mae aggressively prices and structures the terms of our Small Loans. In fact, Fannie Mae typically finances over $1 billion annually in loans for smaller rental properties (loans of $3 million or less in most markets and $5 million or less in eligible markets) across the country. Fannie Mae’s Small Loan product is truly ready-made for many of the properties in rural areas.

*Tim Carpenter* is a Director in Fannie Mae’s Multifamily Mortgage Business.
Rural Housing Finance
One Size Does Not Fit All

By Sarah Carpenter

State housing finance agencies can help fill gaps to address smaller-scale rural housing needs.
When thinking about rural housing finance one can never think too small. This is what we need to remind ourselves and our colleagues in banking, finance and in particular our partners in the government-sponsored enterprises (GSEs) – Fannie Mae, Freddie Mac, and Ginnie Mae. Rural America is made up of small towns and villages, with small markets that call for small-scale rental projects and many homeowners who may need smaller mortgages. Even though we look and feel small, rural areas house almost 20 percent of the population in the U.S. In this day of “too big to fail,” we cannot fail one-fifth of our citizens who live in small towns and rural areas.

Vermont is one of the most rural states in the country and is served by Vermont Housing Finance Agency (VHFA). We are tucked in the northwest corner of New England bordering Canada. With less than 630,000 residents, we are the second least populated state. Mountainous, and with less land than many rural areas, we have lower population density than most states. Vermont’s size has required all housing partners within the state to be creative in the world of big finance. Innovation is certainly possible, but for small, rural states this era of homogenized and nationally focused finance poses special challenges.
loans and/or loan servicing rights to those interested in investing in long term mortgage securities. Since the Great Recession the largest sales of these loans by far are those pooled together through Fannie Mae, Freddie Mac, Ginnie Mae (purchaser of Federal Housing Administration, Department of Veterans Affairs and U.S. Department of Agriculture Rural Development loans), and state housing finance agencies (HFAs).

Much has been written about the influence and pros and cons of the federal GSEs, which guarantee or underwrite nearly nine out of ten new mortgages. For rural homebuyers, this means that the rules are being set at the national level with the intent of aggregating mortgages with similar characteristics. Originating and servicing loans purchased through federal State agencies can help finance rural homeownership

A sense of community is what drives many people to want to live in rural areas. Financing affordable homeownership is a key to meeting this demand. The homeownership rate in the rural U.S. and in Vermont is about 72 percent, compared with 65 percent for the U.S. as a whole and 49 percent in urban areas.

Long gone are the days when a local financial institution provided a home buyer with a mortgage that would be held for 30 years at a fixed rate. Financial institutions, for very legitimate reasons, need to match the capital investments of their depositors and must have liquidity for the mortgages they originate. Liquidity can be provided by selling mortgage loans and/or loan servicing rights to those interested in investing in long term mortgage securities. Since the Great Recession the largest sales of these loans by far are those pooled together through Fannie Mae, Freddie Mac, Ginnie Mae (purchaser of Federal Housing Administration, Department of Veterans Affairs and U.S. Department of Agriculture Rural Development loans), and state housing finance agencies (HFAs).

This 17-unit general occupancy apartment building named “Algiers Village” was developed in Guilford, Vermont (pop. 2,121), a rural village that had fallen into disrepair. Financed with Low Income Housing Tax Credits, the project received a national Phoenix Award for transforming the location. Photo by Windham and Windsor Housing Trust.
programs is a difficult, and not always profitable, business. This requires financial institutions to have specialization and compliance resources that may not be possible for local organizations.

Not every lender can participate in these programs. Rural borrowers may need to work with a lender outside their immediate community, which can be a barrier for some. Although this can be frustrating for homebuyers, homeowner counseling programs – in person or online – such as those offered by organizations like NeighborWorks Alliance of Vermont can provide guidance about getting started. State housing finance agencies operate in all states and cover all areas within their states. They can guide home buyers to lenders serving their area. Many HFAs, like VHFA, offer down payment assistance, which can be essential for first-time home buyers. VHFA works with community land trusts which may offer additional home buyer subsidies.

Recent homogenization of mortgage underwriting standards demands continued advocacy from housing agencies and acknowledgement by the GSEs of issues unique to rural communities. Residential rural properties may have more instances of shared driveways and roads, private (and shared) water sources, and long-term easements. These do not necessarily devalue a property but can be a fact of life with rural property. In very rural areas, appraisers may have difficulty locating acceptable comparable properties due to limited sales in close proximity, or may not know how to value outbuildings on a property. Despite these extra challenges, rural areas must be accommodated in the housing finance process.

Manufactured housing can be an affordable option for homebuyers in rural areas, but buyers must be cautious. There are few reputable mortgage products for old existing homes, in part because these homes may not hold their value. Buying a low cost home, only to have energy bills higher than the mortgage payments, is a fate shared by too many rural mobile home buyers in the past. Manufactured housing that is up to newer standards and can provide energy efficiency is likely to be a better long-term investment for home buyers.

The VERMOD is a highly energy efficient modular home developed in Vermont when many older mobile homes were lost in Tropical Storm Irene. VHFA, in partnership with our local NeighborWorks Alliance, also developed a manufactured home replacement down payment loan program funded by state housing credits. The program provides a 20 percent down payment, thus creating more financing options for buyers. Vermont and New Hampshire are currently working on a pilot project with USDA to finance energy-efficient manufactured housing in leasing parks. Residents considering manufactured housing in a rental park need to be sure that the community is stable, perhaps nonprofit or resident controlled, and offers long-term leases or tenant protections such as those in Vermont statute.
State support fits rental housing finance too

Even though homeownership may be the backbone of rural communities, there is a growing need for right-sized rental projects in small communities. Many rural families need this option, where jobs may be scarce, transportation and home energy costs are high, and the population is aging. Developers are often unwilling to consider developing affordable rental projects to serve small markets offering little economy of scale.

Vermont has developed a network of regional nonprofits who want to help tackle this problem. These community organizations often work with Vermont’s statewide nonprofit tax credit syndicator Housing Vermont, whose mission includes facilitating small Low Income Housing Tax Credit (LIHTC) deals and working with local LIHTC investors. VHFA works closely with developers through our tax credit allocation process to make sure that projects are located in village and town centers. Being near available services and transportation helps a project to be a more sustainable long-run solution for tenants. Furthermore, the development of a rental housing building in the center of a town can often entice additional service providers to locate there. Several projects financed through VHFA have associated commercial space while others have owner-occupied units.

Multifamily housing in rural areas often cannot take on much traditional debt or offer reduced rents without capital subsidy or rental assistance, but there are programs that can assist, such as the new HFA Federal Financing Bank program, which now offers low-cost 40-year financing, and the new National Housing Trust Fund program. Affordable rental projects being developed, whether they are new construction or substantial rehab, will usually need short-term construction financing, which most HFAs can offer. In order to access 4 percent Low Income Housing Tax Credits (generally not a competitive resource) the financing must be done with tax-exempt financing using state bond volume cap.

Since the markets in rural areas are small, many can only support one or two affordable rental projects. With steadily declining average household size, Vermont’s need for smaller general occupancy properties has risen. These smaller properties can serve the aging, those with special needs, and those who have become homeless. To complement the housing units themselves, more states are looking at...
integrated models and universal building design so that people can live in rental housing at varied times in their lives. Programs like SASH (Support and Services at Home), developed in Vermont for senior living communities, can be brought to any building to support residents. We cannot look at rural rental properties as one size fits all, but rather as adaptable to the many types of residents in our communities.

Local flexibility is key

As the world of finance continues to recover from the excesses of the last decade and struggles to provide adequate regulation to prevent repeating past mistakes, national policy and financing programs must allow flexibility for states to adapt approaches to include the unique needs of small, rural markets that will best serve all residents.

We cannot look at rural rental properties as one size fits all, but rather as adaptable to the many types of residents in our communities.

Michelle and Dan Tewksbury and their daughters bought a home in Lunenburg, Vermont (pop. 1,302) that was renovated through VHFA’s Housing Acquisition and Rehabilitation Program.

Sarah Carpenter is Executive Director of the Vermont Housing Finance Agency.
Nonprofits Need Capacity Building to Access Scarce Multifamily Financing

By Michael D. Carroll

An intermediary organization has developed tools to improve local entities’ ability to use the complex financing available.

The affordable rental housing shortage is very much on the radar at national, state, and local levels. Economic recovery continues, but housing production has not returned to pre-crash levels although in many markets, home prices and rents have reached new highs. Wages and benefits have remained stagnant or at best not kept up with rising housing costs. The National Low Income Housing Coalition’s annual Out of Reach report reveals that there is not a single place in the country where a minimum wage worker can afford market rents.

How is this dynamic playing out in rural markets, and what are the resources and tools available to nonprofit affordable housing developers in rural America? Given limited resources, do mission driven nonprofit developers also have the capacity to use these tools to address the challenges? Rural Community Assistance Corporation (RCAC) serves rural communities in 13 western states. For the last few years, we have been addressing those questions in our service area through capacity building, financing, and advocacy.
Complex rural rental financing

New affordable rental housing production is important, but it is equally important to preserve the federally subsidized housing stock that was financed through USDA’s Section 515 rental housing and Section 514/516 farmworker housing programs over the last 40 years. New production has slowed to a trickle for these programs in recent years, which makes preserving existing units crucial. As of September 2015, the USDA portfolio had about 436,000 units, and almost 271,000 of them received Section 521 Rental Assistance.

With the decline in USDA direct loans and grants as the principal funding source for rural affordable rental housing, developers now must secure a mix of private and public capital to produce new and to rehabilitate existing units. USDA’s Section 538 program has become increasingly important, providing private loans with federal guarantees, which are necessarily at higher interest rates than Section 515 and 514 government loans. The Low Income Housing Tax Credit (LIHTC) program is the keystone for most projects. While the USDA farmworker housing program funds new projects every year, there are limited available dollars, which must be leveraged with other resources to complete projects.

LIHTC 9 percent credits are very competitive, and the amounts dedicated to rural housing through the state Qualified Allocation Plans are limited. Tax exempt bond financing coupled with 4 percent tax credits is more readily available, but bond issuance costs limit their utility to larger projects, not typically small, rural projects. The limited capital raised in 4 percent deals means a greater need for other subsidy sources, such as HOME and the Affordable Housing Program (AHP) from the Federal Home Loan Banks. In the West, state funded subsidies are available only in a few states. The new National Housing Trust Fund will offer subsidy, but only on units targeted to extremely low-income households (those with under 30 percent of area median income).

Tax credit programs require private capital for both debt and equity. In metropolitan markets like the San Francisco Bay area or even Salt Lake City, competition among lenders and investors helps drive competitive financing terms for nonprofit affordable housing developers. Rural...
The program brings a spectrum of tools to the problem, including consulting, coaching, formal classes, and financing. The program also launched a new role for RCAC – forming joint partnerships with local groups, in which we lend our technical expertise and balance sheet to assist local organizations with project development as they expand their work into multifamily housing development.

Our approach includes the Tribal Housing Excellence Academy or THE Academy. In 2014, we assembled a cohort of nine tribal housing entities, each with an identified housing development project, for a three-year program of formal classroom training, coupled with on-site coaching and technical assistance. Eight of the nine markets are perceived as riskier with smaller projects and therefore less attractive, and as such, they do not encourage competitive financing. Lenders and investors may also have concerns about nonprofit developer capacity in many rural markets. Lack of competition means less attractive terms for rural projects, which in turn creates an even greater need for subsidy.

The lack of affordable housing is even more pronounced in Indian Country where resources like the Low Income Housing Tax Credit are only beginning to be utilized. Direct funding from HUD through its Indian housing programs has been the traditional source of housing financing, but when those programs are used alone, production is limited.

Tools to help nonprofits

In addition to the scarcity of resources, RCAC has noted a dearth of nonprofit affordable housing developers in many rural areas of the 13 western states we serve, particularly in Indian Country. We believe that nonprofits are essential players because of their mission to build quality affordable housing and their commitment to maintaining it as a community asset in the future. To address the shortage of nonprofits and to help make good use of the available resources, we created an approach called Development Solutions, which goes beyond the traditional technical assistance approach to grow local capacity in places that might be called “development deserts.”

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organizations graduated from the formal training portion in June 2015. One project is under construction and over $40 million in new capital is in the pipeline for several more in various stages of development and predevelopment. A second cohort is in recruitment and will start the process in early 2017.

Another example is the Utah Capacity Building Collaborative. RCAC is working with a number of banks, a private donor, and the state of Utah to provide long-term intensive technical assistance, coaching, and project lending to four nonprofit developers. The project began earlier in 2016 with an in-depth assessment of each organization, to be followed by specific action plans aligned with specific development projects over the next few years.

Kunia Village is an early example of our Development Solutions joint venture strategy. RCAC and its local partner, Hawaiian Agricultural Research Corporation (HARC), formed a partnership to rehabilitate 82 units for farmworker housing on Oahu on the site of a former pineapple plantation. The housing was donated to HARC when the Del Monte Corporation exited the pineapple business in Hawaii. RCAC is acting as the developer and is providing subordinate financing as a Community Development Financial Institution. Other financing is provided by Wells Fargo Bank through a tax-exempt bond issued by the Hawaii Housing Finance and Development Corporation (the state housing finance agency); 4 percent Low Income Housing Tax Credits, purchased by Alliant Capital; USDA 514 farmworker housing funds; and a term mortgage provided by Lancaster Pollard and guaranteed by the USDA Section 538 program. USDA is also providing rental assistance so the low-income farmworker tenants will pay no more than 30 percent of their income for rent. RCAC will remain a partner in the project for the time it takes to achieve stabilized occupancy and to enable the investors and lender to be comfortable that the local partner can own and manage the property without our formal membership in the partnership.

RCAC plans to extend our Development Solutions strategy into other states in the west. Our involvement will range from consulting to lending and partnership. The goals are not only to build the housing but also to build the local capacity to continue the development work after we have moved on. With the current affordable housing shortage in the West, and limited resources, it is very clear that there is a lot of work to do.

Michael D. Carroll is Director of Lending and Housing for Rural Community Assistance Corporation, based in West Sacramento, CA.
Access to Financing Is Key to Manufactured Housing’s Potential

By Doug Ryan

Manufactured housing can help expand rural homeownership if financing options are expanded.
The rural American housing market is as complex and diverse as any other in the country. While homeownership represents a bigger piece of the rural market than it does in the rest of the United States, compared to the country as a whole, rural Americans are slightly poorer and somewhat older. Rural homes are typically worth less than those in urban and suburban areas.

One piece of the housing puzzle that has come to define rural America is manufactured, mobile, and trailer homes. The distinctions between these are important but, in many Americans’ views of rural America, whether of Appalachia or California’s Coachella Valley, they matter little. And this is why so much of this market, and the families who live in it, are often marginalized.

Realities of manufactured housing

According to the Housing Assistance Council’s Rural Data Portal, manufactured homes (those built after June 1976) and mobile homes (pre-1976) make up nearly 15 percent of the rural and small town housing stock. In contrast, manufactured and mobile homes are about 6 percent of suburban homes and just over 1 percent of the stock in American cities. In some markets, manufactured housing is strikingly vital. In rural South Carolina, over a quarter of all homes are manufactured or mobile. In New Mexico, the share is almost as high.

The terms “manufactured,” “mobile,” and “trailer” homes are often used interchangeably, but they do mean different things. Here are the key distinctions:

- Trailer home: This term comes directly from the history of the sector, which began as vacation travel trailers in the 1920s and 30s. No permanent home today is a trailer, and the term is as outdated as it is inaccurate.
- Mobile home: While very few homes are truly mobile, this is a convenient term for those built before the Manufactured Home Construction and Safety Standards, known as the HUD Code, took effect in June 1976.
- Manufactured home: This term defines homes built according to the HUD Code. “Manufactured home” is defined in federal law and regulation, and therefore is the most accurate term for the sector.
Manufactured home owners face tremendous challenges, from zoning and land use restrictions to lack of access to public resources such as HOME or Community Development Block Grant funding (access to which varies by state) to a dearth of good home finance choices. Wrap all of these up with the persistent stigma that many owners face, and what emerges is an extraordinarily unfair and stunted housing sector.

Despite the challenges the sector faces, advocates continue to work to unlock the wealth-building potential of manufactured housing. CFED, a 37-year-old nonprofit that works to build and sustain assets for low- and moderate-income Americans, is one of the leading voices of this work. Any asset-building strategy, particularly post-financial crisis, must include homeownership. With the help of partners across the U.S., since 2005, CFED has looked at manufactured housing through its potential, not its perception, in the marketplace. Despite its promise, its low cost, and its improved energy efficiency and accessibility, manufactured housing still has not lived up to this potential. One key reason is something many of us take for granted: access to good-quality credit.

**Current financing options**

According to industry statements, about 70 percent of new manufactured homes are funded through chattel or personal property loans. These are not mortgages; they have shorter terms, typically 10–15 years, and higher rates, as high as 11 percent in today’s market. They also tend to have fewer fees than mortgages, but because they are often low-dollar loans the fees represent a higher percentage of the principal, making the loans historically costly.

To further complicate the situation, this is a very concentrated market, with just five lenders originating nearly half the manufactured home loans. And most borrowers, due to credit scores or location, do not even have access to all these lenders. There is also no platform to access a
secondary market for chattel loans, such as Fannie Mae or Freddie Mac; this gap keeps potential lenders away, eliminates any meaningful role for state housing finance agencies, and effectively raises costs and keeps lending practices out of the spotlight.

**Dodd-Frank’s changes**

As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Congress explicitly included borrower protections for manufactured home buyers. Through the statutory language, Congress recognized that these loans are different from classic mortgages, and so the law (and the implementing regulations) allows lenders to charge much higher rates and points than their mainstream brethren before their loans are considered to be high-cost.

While Dodd-Frank does not prevent lenders from making expensive loans, it triggers protections for consumers when loans go beyond standard practices. In essence, and in today’s market, a manufactured home lender can charge about 11.5 percent for a 15-year loan. (A similarly termed mortgage comes in around 3 percent.) In addition, points and fees face limitations. To avoid a high-cost designation, points and fees on a loan less than $20,000 cannot exceed the lower of 8 percent or $1,000. For bigger loans, the limit is 5 percent. The regulations also limit how manufactured home retailers can participate in the loan application process.

The manufactured housing industry, of course, has objected to these limits and asked Congress to enact legislation the industry itself wrote years earlier. The industry argued that the rules have limited consumer access to manufactured home loans – although it provided little evidence – and that Congress must resolve the problem in a way the Consumer Financial Protection Bureau has refused to do. (Note that the Bureau has reviewed industry data and has not reopened rulemaking, apparently concluding that, at least for now, no adjustments are needed.) One curious piece of this tale is that industry promoted bills to change these rules well before they took effect, thus laying the groundwork for arguments that could not rely on data – since before the 2014 rules no data on the rules’ impact existed.

From the imperfect data available, trends suggest the Dodd-Frank rules have had a minimal impact on manufactured home lending. According to data collected through the Home Mortgage Disclosure Act (HMDA), purchase loans in this sector increased by about 3.5 percent, from just fewer than 65,000 originations in 2013 to more than 67,000 loans in 2014. Lower-dollar loans did drop by double-digit percentages, but this in part reflects the relatively few very small loans made (for example, below $20,000). HMDA reports that 4,400 loans under $20,000 were made in 2013. In 2014, it was just 3,200.

The drop in lower dollar loans may reflect the new rules. (21st Mortgage, the largest manufactured home lender, announced soon after the new rules took hold they would no longer make loans for less than $20,000.) It is just as likely,
However, that poor quality loans – loans that cannot be repaid or that are made simply for fee income – are no longer getting funded. Hardly a bad thing.

The bigger picture seems reasonable: overall new manufactured home sales rose from 60,000 in 2013 to 64,000 the next year, and to 71,000 in 2015. To add some further data, Clayton Homes, which controls 35 percent of the lending market (and much of retailing and manufacturing), saw its earnings grow by 70 percent from 2013 to 2015.

So from HMDA, we know that loans are being made to manufactured homebuyers, but are all potential, well-positioned buyers in rural America getting the credit they deserve? No. HMDA, first of all, is an imperfect measure of all the loans made. The industry needs to release its data publicly, and then we can fully measure the gaps. They have not been willing to do so.

Future improvement possibilities

No doubt sales and profit growth bode well for the industry. But the future of manufactured housing finance in rural America must include greater involvement by public lenders, guarantors, and platforms. Right now, manufactured housing is only 1 percent of the portfolios of USDA Rural Development, Fannie, and Freddie. Many state housing finance agencies do no manufactured home lending whatsoever. If we are serious about improving homeownership in rural communities, these figures need to improve.

As part of the Housing and Economic Recovery Act of 2008, Congress required Fannie and Freddie to meet a duty to serve – that is, to provide credit to rural markets, preserve affordable housing, and support manufactured
The Federal Housing Finance Agency (FHFA), which regulates the GSEs, issued proposed rules in December 2015. If adopted with some key changes, duty to serve could clear a better path to manufactured homeownership.

Fannie and Freddie will be with us for a while. Housing finance reform, in whatever form, is years away, so it is imperative that the GSEs address their duty to serve in the full spirit of the law (while also fulfilling their responsibility to foster safe and sound lending). Success in this will help ensure that affordable homeownership is at the table as Congress debates the new housing finance world order.

FHFA should permit and encourage Fannie and Freddie to adopt pilot chattel loan products, ones that reach good home buyers in responsibly operated manufactured housing communities. Communities owned by residents, nonprofits, and public housing authorities are key to making these work, since they already embrace the consumer protections identified by the FHFA as fundamental to good operation. There are strong and responsible investor-owned communities, too, and ensuring their participation is key to getting a meaningful market intervention to scale.
USDA lending

USDA has also moved to improve its offerings to manufactured homeowners. Beginning in New Hampshire and Vermont, USDA Rural Development launched a pilot that allows buyers of highly energy-efficient manufactured homes to access the Section 502 mortgage program and to site their homes in manufactured housing communities. The Section 502 program is a key homeownership tool in rural America, and families who choose manufactured homes should have access to it, with reasonable guidelines.

While still in its nascent stages, the Section 502 pilot should be made available in other states, especially those with good titling laws, such as Oregon, or where the political environment may encourage better and easier real estate titling of manufactured homes, such as California or Minnesota. The FHFA, for example, explicitly calls out for titling reform to open the manufactured home market to mortgage products. States should embrace this message and enact proposals such as the Uniform Manufactured Housing Act. Again, as with a GSE pilot, mission-driven entities are best positioned to demonstrate how this Section 502 pilot can work.

Manufactured home finance is at a crossroads. Homeownership in America is, too. Congress and policymakers have offered the agencies and lenders tools to expand homeownership in rural America in sustainable and responsible ways. It is time to choose which road we will follow.
Qualified Mortgage Rule is a Win-Win

By Barry Zigas

Recent regulations have improved home mortgage financing for lenders and consumers.

For most consumers, home mortgages are a straightforward commodity product, with well understood terms. But millions of households caught up in the financial boom of the mid-2000’s found themselves saddled with loans that were marketed to them to refinance existing mortgages and pull out hard-earned home equity or as a means to afford a home that otherwise might be out of reach. Some of these loans were made to people with damaged credit history and offered easy terms, very low interest rates, and no risk.

Unfortunately for many of these borrowers, the loans they took out turned out to be unstable and unsuited to their actual financial...
Dodd–Frank reestablished the seemingly obvious principle that lenders’ and consumers’ interests should be well-aligned through properly underwritten loans from many quarters to rein in these practices.

Congress responded to this regulatory failure in the landmark Dodd–Frank bill in 2010. One of its most important provisions for consumers was the new requirement for all mortgage lenders to make loans only when they had a reasonable expectation that the borrower had the ability to repay the loan on the terms that applied at the time of origination. This provision in Title XIV of Dodd–Frank reestablished the seemingly obvious principle that lenders’ and consumers’ interests should be well-aligned through properly underwritten loans where the loans’ terms and conditions suit the borrowers’ circumstances.

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Dodd–Frank’s provisions specifically require mortgage lenders to take the following steps before making a mortgage loan:

- **Consider the borrower’s**
  - Credit history
  - Current income
  - Expected income
  - Current obligations
  - Debt to income ratio
  - Employment status
  - Other resources available to pay

- **In addition**, all loans with terms like negative amortization, interest only, and pay option plans for adjustable rate mortgages, where the payment can be chosen by the borrower, must be underwritten on a fully amortizing schedule.
In order to meet the QM test, a mortgage loan must meet the following qualifications:

I. the transaction must have regular periodic payments;
II. in general, no balloon payments are allowed;
III. the income and financial resources of the mortgagor are verified and documented;
IV. fixed rate loans must be fully amortizing;
V. for an adjustable rate loan, the underwriting is based on the maximum rate permitted under the loan during the first 5 years and includes a payment schedule that fully amortizes the loan over the loan term;
VI. the transaction must comply with any regulations established by the CFPB relating to ratios of total monthly debt to total monthly income;
VII. the total points and fees payable in connection with the loan must not exceed 3 percent of the total loan amount; and
VIII. the mortgage must not exceed 30 years, except in specific areas.

The responsibility for assuring that these requirements are met rests with the creditor offering the loan, and they retain liability for damages if they fail to do so and a consumer defaults on their loan.

Title XIV included additional provisions to elaborate on the ability to repay liability by establishing a called “Qualified Mortgage” (QM) standard. Loans meeting this standard would be presumed to meet the ability-to-repay test (ATR) and therefore lenders’ liability in the event of a default would be greatly reduced. Congress hoped these provisions would encourage lenders to focus primarily on making loans meeting the QM test, therefore increasing the safety and stability of consumer mortgage finance.
The Consumer Financial Protection Bureau (CFPB) issued a final rule implementing the ATR and QM provisions to become effective in January 2014. The rule set a 43 percent debt-to-income ratio under item VI in the sidebar, but also established that any loans approved for delivery to Fannie Mae, Freddie Mac, or the Federal Housing Administration during the following seven years would also be considered QM loans. Lenders who make QM loans benefit from a presumption that they have met the ATR test. This is a so-called “safe harbor” for most QM loans, meaning that the burden of proof rests with a consumer contesting whether the loan meets the ATR test. This is a high standard and provides a great deal of protection for lenders. For higher cost loans with interest rates greater than 1.5 percent above the average offering rate, QM loans receive a rebuttable presumption, a less difficult standard for consumers to challenge. But in either case, the QM standards are designed to minimize the likelihood of consumers receiving loans they are unlikely to be able to repay under normal circumstances.

There are some exceptions in the CFPB rule for loans made by lenders, primarily in rural areas, that make only a few loans or whose clientele has special needs that justify these exceptions.

When the CFPB considered and finalized the ATR and QM rules, there was a great deal of anxiety among lenders and their trade groups that the new rules would expose them to frequent lawsuits and consequently restrict lending rather than expand responsible lending. There is some evidence that the costs of origination and compliance have increased since the rule went into effect and credit remains much tighter than before the financial crisis, though this is more likely the result of other factors than QM.

But two years out, there has been no wave of litigation and mortgage lending today is almost entirely within the QM parameters. This means that consumers are being protected from bad loans and lenders are back to doing what they should have done all along – make loans on terms consumers can meet. It’s a win-win for both sides.

**Barry Zigas**

is Director of Housing Policy for Consumer Federation of America.
SAVE THE DATE FOR HAC CONFERENCE

HAC’s Rural Housing Conference is rapidly approaching. Mark your calendars for November 30–December 2, 2016 with pre-conference activities on November 29. The Conference will be held at the Renaissance DC Downtown Hotel.

For more information, visit ruralhome.org/conference

HAC HONORED WITH HOUSING VISIONARY AWARD

The Housing Assistance Council was honored with one of this year’s Housing Visionary Awards from the National Housing Conference (NHC). The award was presented at NHC’s 44th Annual Housing Visionary Award Gala. NHC recognized HAC for its 45 years of work improving the housing conditions of the poorest of the rural poor, advocating sound policy on rural housing programs, and being a critical source of capacity building and information for rural housing in America.

For more information visit ruralhome.org

MOISES LOZA RECEIVES LIFETIME ACHIEVEMENT AWARD

HAC Executive Director Moises Loza was recognized with a Lifetime Achievement Award at the 2016 MAFO National Farmworker Conference. The award honors his lifetime of work to improve the lives of people in rural America, including farmworker populations that are often underserved.

For more information visit ruralhome.org
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