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# Supporting Mortgage Lending in Rural Communities

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## Executive Summary

Despite the continuing growth of and focus on American cities, almost a quarter of the United States population continues to live in rural communities. Often these families are overlooked in many of the policy discussions on proposed changes to the Government Sponsored Enterprises (GSEs), which provide the largest share of mortgage financing in rural areas. GSE mortgage financing meets a critical rural housing need, and it also supports community banks, which are often the only full-service financial institutions in many rural areas.<sup>1</sup> How mortgage financing is supported in the future will profoundly affect lending in rural communities and the health of community banks and credit unions. In this paper, we analyze the most recent Home Mortgage Disclosure Act (HMDA) data to assess current rural mortgage lending. We then review aspects of proposed housing finance reform to determine how it would affect this lending and community banks and credit unions.

### Key Findings

- **Nearly 74 million people, including more than 15 million people of color, live in rural areas.** Nearly a quarter of the United States population, 23.3 percent, lives in a rural area and 20.9 percent of the rural population are people of color.
- **Lenders originated over 1.2 million mortgages in rural areas in 2016 – 17.5 percent of the mortgage market.** The rural mortgage market, like the urban mortgage market, is highly competitive with the top ten lenders holding a 20.9 percent market share and 5,486 lenders making loans in rural areas.
- **Fannie Mae and Freddie Mac provided critical access to credit in rural areas, with 30.3 percent of all loans originated in 2016 sold to the GSEs.** The percentage of loans sold to the GSEs exceeds the percentage of loans backed by Ginnie Mae in rural areas and among low- and moderate-income borrowers in rural areas. The GSE market share exceeded the market share of loans backed by Ginnie Mae nationally, in rural areas, among small lenders lending in rural areas and to low- and moderate-income borrowers in rural areas. Only among rural borrowers of color did loans backed by Ginnie Mae make up a greater share of the market.
- **Community banks and credit unions with less than \$10 billion in assets originated nearly one in three rural mortgages.** The GSEs provide critical support to community bank lending in rural areas, purchasing 26.8 percent of all loans originated by community banks in 2016 – over ten times the community bank and credit union lending backed by Ginnie Mae. While nondepositories hold a sizable portion of the urban and rural market, they have a smaller market share in rural areas – a gap that is filled by community banks providing much-needed access to credit.

- **Proposed changes in housing finance reform could reduce the ability of community banks and credit unions to provide mortgage credit.** Community banks, credit unions, and the GSEs have played a critical role in the housing recovery, and key features essential to providing community banks the means to compete effectively must be maintained.

## Introduction

### The Rural Population in the United States

As of 2016, 73,883,503 people lived in rural areas, 23.3 percent of the total population. Of the rural population, 15,453,802, or 20.9 percent were people of color. Texas, North Carolina, Ohio, California and Georgia have the largest rural populations. Of those states, in all but Ohio, people of color made up over 30 percent of the rural population (Figure 1). Vermont, Wyoming, Montana, Mississippi, and South Dakota had the highest percentage rural population (Appendix A).

**Figure 1. Top ten states by rural population**

State	Rural population (#)	Total population (#)	People of color in rural areas (#)	Rural population (%)	People of color in rural areas (%)
TX	5,121,227	26,538,614	2,019,655	19.3%	39.4%
NC	3,430,056	9,845,333	1,088,160	34.8%	31.7%
OH	3,366,319	11,575,977	224,911	29.1%	6.7%
CA	3,075,011	38,421,464	1,353,269	8.0%	44.0%
GA	2,728,944	10,006,693	854,482	27.3%	31.3%
PA	2,712,119	12,779,559	173,657	21.2%	6.4%
MI	2,681,517	9,900,571	236,303	27.1%	8.8%
NY	2,667,170	19,673,174	261,780	13.6%	9.8%
KY	2,449,747	4,397,353	196,634	55.7%	8.0%
TN	2,382,341	6,499,615	283,925	36.7%	11.9%
<b>Total</b>	<b>73,883,503</b>	<b>316,515,021</b>	<b>15,453,802</b>	<b>23.3%</b>	<b>20.9%</b>

Source: Total Population; U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates

### Banking and Lending in Rural Areas

Community banks play a critical role in supporting financial services and mortgage lending in rural areas. Community banks hold the majority of the banking deposits in rural areas and in almost one out of every



five counties in the United States, community banks represent the only banking presence.<sup>2</sup> Community banks are more likely to locate their headquarters and bank branches in rural areas than larger financial institutions. In 2011, 47 percent of community banks had their headquarters in a non-metro area, while only 17 percent of larger financial institutions were located in non-metro areas.<sup>3</sup>

Mortgage lending remains one of the largest asset classes among community banks. While mortgage lending has declined from 29 percent of total community bank assets in 1984 to 20.3 percent of community bank assets in 2011, 16.3 percent of community banks are considered mortgage lending specialists, over twice the rate of non-community banks.<sup>4</sup> While the percentage of community banks considered mortgage lending specialists has declined from its peak of 22 percent in 1995, it has held steady at 16 percent since 2005.<sup>5</sup>

At the same time, larger banks have scaled back their presence in rural areas. Since the financial crisis, revenue at the rural branches of large banks has declined. Banks have responded by closing rural branches or selling them to community banks and opening new, often smaller, lower-cost branches in metropolitan areas.<sup>6</sup>

## Methodology

This analysis uses data provided by the Federal Housing Financial Agency's (FHFA) Duty to Serve program, the Home Mortgage Disclosure Act and the American Community Survey to provide a summary of mortgage lending among community banks and larger financial institutions in rural areas. It is also intended to help better understand the role of the GSEs in supporting mortgage lending in rural areas.

Rural areas are defined using the definitions provided as part of the FHFA's Duty to Serve program. The program evaluates the GSEs on their ability to serve three specified underserved markets, including rural housing. The GSEs are tasked with increasing the liquidity of mortgage investments and improving the distribution of investment capital for mortgage financing for very low-, low-, and moderate-income families in the underserved markets.<sup>7</sup> The FHFA's Final Rule defining rural area was issued in 2016.<sup>8</sup>

Home Mortgage Disclosure Act data from 2004 to 2016 was used to analyze mortgage lending and lending institution activity in rural areas.<sup>9</sup> Loans were limited to first lien mortgage originations for purchase or refinance, owner-occupied one to four-unit buildings and manufactured housing in 50 states and the District of Columbia. Community bank and credit union status was determined using asset information provided in the 2016 HMDA Reporter Panel data and defined as a bank or credit union with assets less than \$10 billion, excluding independent mortgage companies. Affiliated mortgage companies that were not associated with a depository were also excluded.<sup>10</sup>

This analysis also uses the American Community Survey 5-year estimate for 50 states and the District of Columbia to determine rural population.<sup>11</sup> Low- and moderate-income status was determined using the definitions of low, moderate, middle, and upper income as defined by the Community Reinvestment Act (CRA) regulations and includes borrowers with incomes of less than 80 percent median family income.<sup>12</sup> People of color were defined as borrowers that did not identify as white, non-Hispanic.

These data are used to analyze historical trends in mortgage lending since 2004, mortgage lenders active in rural areas, mortgage purchases by Fannie Mae, Freddie Mac and Farmer Mac (collectively, GSEs) and mortgage originations by community banks and credit unions and sold to the GSEs.

# Mortgage Lending and Mortgage Lenders in Rural Areas

Rural lending makes up nearly one out of every five mortgage loans originated in the United States, with large depositories, community banks and credit unions, and nondepositories active in a competitive rural market. Community banks and credit unions, in particular, play a critical role in providing access to mortgage credit, and the GSEs are the largest providers of financing for rural mortgage lending.

## Mortgage Lending in Rural Areas Since 2004

In 2016, mortgage lenders originated over 6.8 million purchase and refinance mortgage loans, including 1,204,914 loans in rural areas—17.5 percent of the total mortgage market. In all, 6,243 lenders originated mortgage loans in 2016, with 5,486 mortgage lenders active in rural areas.<sup>13</sup> Community banks continue to play an important role in the mortgage market, with 5,240 active depository lenders with assets of \$10 billion or less originating purchase or refinance loans in 2016 and 4,524 community banks active in rural areas. Of these lenders, 871 community banks made more than 100 loans and 123 community banks made more than 500 loans (Figure 2).

**Figure 2. 2016 mortgage lending and active mortgage lenders in rural areas**

Activity	(#)	(%)
Total Mortgages	6,899,169	100.0%
In rural areas	1,204,914	17.5%
In urban areas	5,694,255	82.5%
All mortgage lenders	6,243	
Lending in rural areas	5,486	
Lending in urban areas	6,033	
Community banks and credit unions	5,240	
Lending in rural areas	4,524	
<i>Making 100 loans or more</i>	871	
<i>Making 500 loans or more</i>	123	
Lending in urban areas	5,031	
<i>Making 100 loans or more</i>	1,440	
<i>Making 500 loans or more</i>	413	

Source: Center for Responsible Lending analysis of 2016 HMDA data

## The Largest Mortgage Lenders in Rural Areas

There were a number of lenders in the rural mortgage market, with most of the national leading lenders participating in this market. Like the overall market, market share was divided among many lenders, with none holding a large percentage of the market and the largest having a 6 percent market share. The ten largest rural lenders made 252,190 mortgages in 2016 and held 20.9 percent of the rural mortgage market. Those same lenders hold 22.4 percent of the total mortgage market nationwide. Of the ten largest lenders in rural areas, only Guild Mortgage Research, Mortgage Research Center, LLC and USAA were not also one of the ten largest mortgage lenders nationally. Compared to the top ten lenders, community banks and credit unions hold a greater market share, 31.0 percent of all rural lending and, in total, originate 26.6 percent of their loans in rural areas (Figure 3). Mortgage lending in urban and rural areas by state is available in Appendix B.

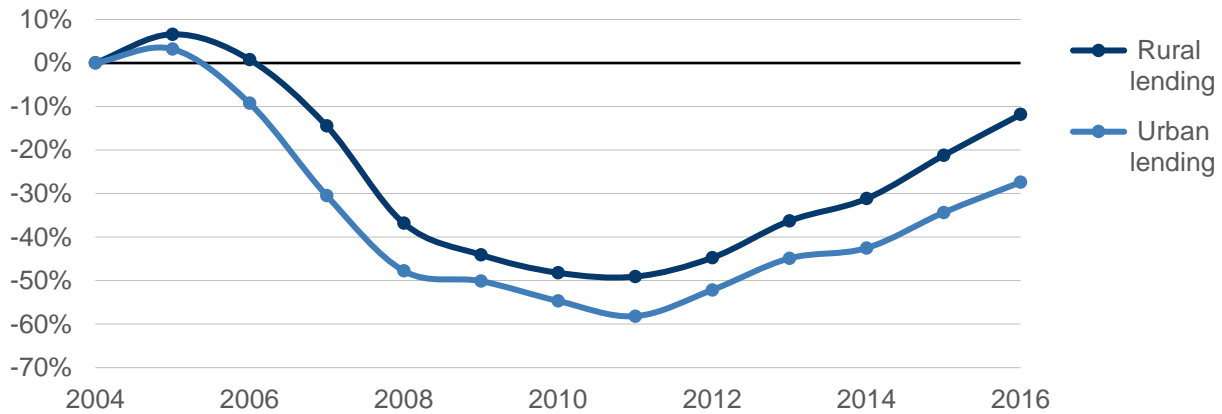
**Figure 3. Ten largest rural mortgage lenders and all community banks by number of loans in rural areas**

Lender	National Rank, Total Mortgages	Assets	Total Mortgages	Rural Mortgages	Rural market share	Cumulative rural market share	Loans in rural areas (%)
Quicken Loans, Inc.	1	\$10B	413,650	84,149	7.0%	7.0%	20.3%
Wells Fargo Bk NA	2	\$1.6T	354,167	48,678	4.0%	11.0%	13.7%
Freedom Mortgage Corporation	4	\$10B	146,892	23,474	1.9%	13.0%	16.0%
US Bk NA	7	\$417B	98,066	21,555	1.8%	14.8%	22.0%
Loandepot.com	6	\$138B	123,975	14,980	1.2%	16.0%	12.1%
Guild Mortgage Company	14	\$31B	58,386	12,608	1.0%	17.1%	21.6%
Mortgage Research Center, LLC	22	\$880B	45,908	12,144	1.0%	18.1%	26.5%
USAA FSB	12	\$71B	62,102	12,002	1.0%	19.1%	19.3%
JPMorgan Chase Bk NA	3	\$1.9T	157,129	11,351	0.9%	20.0%	7.2%
Flagstar Bk FSB	9	\$13B	90,177	11,249	0.9%	20.9%	12.5%
<b>Top ten rural lenders</b>			1,550,452	252,190		20.9%	16.2%
<b>Community banks and credit unions</b>			1,403,711	373,311		31.0%	26.6%
<b>All lenders</b>			6,899,169	1,204,914			17.5%

Source: Center for Responsible Lending analysis of 2016 HMDA data

Since 2004, purchase mortgage lending in rural areas declined at a slower rate and recovered at a faster rate than purchase lending in urban areas. From 2004 to 2008, purchase mortgage lending in rural areas declined 37 percent, compared to a 48 percent decline in urban areas. Rural lending has also recovered at a faster rate. While purchase lending is still 27.4 percent less than 2004 levels in urban areas, lending in rural areas is just 11.8 percent off 2004 levels (Figure 4).

**Figure 4. Percent change in purchase lending since 2004 in rural and urban areas**



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Source: Center for Responsible Lending analysis of 2004-2016 HMDA data

## Community Banks and Credit Unions Make One Out of Every Five Mortgage Loans, and Nearly One Out of Every Three Mortgages in Rural Areas

Community banks and credit unions play a vital role in providing access to mortgage capital in rural areas. In rural areas, community banks and credit unions provide nearly one out of every three mortgages, where larger financial institutions and nondepositories are less likely to lend than in urban areas. Depositories with less than \$10 billion in assets originated 31.0 percent of mortgage loans in rural areas compared to urban areas where they held an 18.1 percent market share. Independent mortgage companies and affiliates of nondepositories together hold a 50.8 percent market share in rural areas, compared to a combined 59.3 percent market share in urban areas. Larger depositories hold a rural and urban market share of 18.2 percent and 22.6 percent, respectively—with the gap largely filled by community banks (Figure 5).



**Figure 5. Mortgage lending by lender type and asset class in rural areas**

Asset class	Rural areas		Urban areas		All areas	
	#	%	#	%	#	%
<b>Community banks and credit unions (&lt;\$10B in assets)</b>	373,311	31.0%	1,030,400	18.1%	1,403,711	20.3%
Depositories \$10B or more	218,944	18.2%	1,287,341	22.6%	1,506,285	21.8%
Independent mortgage companies	533,011	44.2%	3,000,611	52.7%	3,533,622	51.2%
Affiliated mortgage companies	79,648	6.6%	375,903	6.6%	455,551	6.6%
<b>Total</b>	<b>1,204,914</b>		<b>5,694,255</b>		<b>6,899,169</b>	

Source: Center for Responsible Lending analysis of 2016 HMDA data

## How the GSEs Support Access to Mortgage Credit in Rural Areas

### The GSEs Purchase Loans to Low- and Moderate-Income Borrowers, Borrowers of Color, and Loans Originated By Community Banks and Credit Unions

The GSEs and Ginnie Mae continue to provide critical mortgage capital to low- and moderate-income borrowers, and borrowers of color. They also support the mortgage activity of community banks. The GSEs purchased over 2.4 million home purchase and refinance mortgage loans in 2016, including nearly a half a million loans to low- and moderate-income borrowers, over 450,000 loans to borrowers of color, and nearly 400,000 loans originated by community banks and credit unions (Figure 6).

**Figure 6. GSE loan purchases in 2016**

	All loans	Loans to LMI borrowers	Loans to borrowers of color	Loans originated by community banks and credit unions
Fannie Mae	1,475,448	290,457	279,134	256,565
Freddie Mac	951,045	200,519	177,863	142,806
Farmer Mac	1,012	416	145	72
<b>Total GSE purchases 2016 CY</b>	<b>2,427,505</b>	<b>491,392</b>	<b>457,142</b>	<b>399,443</b>

Source: Center for Responsible Lending analysis of 2016 HMDA data

### The GSEs Purchase Loans Made to Rural Low- and Moderate-Income Borrowers and Rural Borrowers of Color

In rural areas, the GSEs purchased 364,719 mortgage loans, or 30.3 percent, of the rural loans originated in 2016. These included 80,680 mortgage loans (26.7 percent) originated to low- and moderate-income borrowers in rural areas and 24,132 (21.9 percent) of loans originated to borrowers of color in rural areas. In comparison, Ginnie Mae guaranteed 244,573 FHA loans (20.3 percent) in rural areas, including 59,455 loans (19.7 percent) to LMI borrowers and 30,308 loans (27.6 percent) to rural borrowers of color (Figure 7). In all, in 2016, 35.2 percent of loans in rural areas were sold to the GSEs and 17.3 percent were loans guaranteed through Ginnie Mae (Figure 7 and 8).

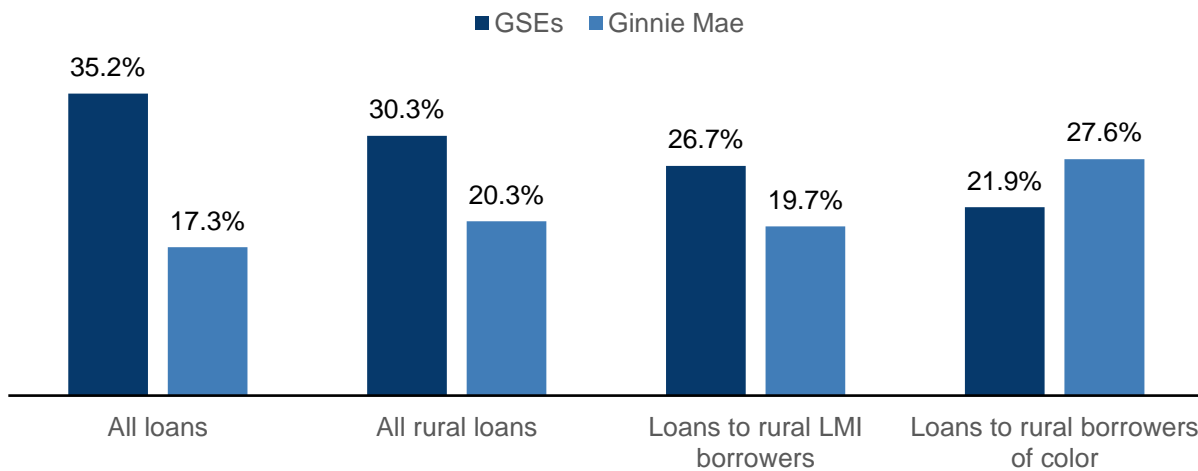
**Figure 7. Loans by purchaser of loan in 2016**

	All loans		All rural loans		Loans to rural LMI borrowers		Loans to rural borrowers of color	
	#	%	#	%	#	%	#	%
<b>GSEs</b>	<b>2,427,505</b>	<b>35.2</b>	<b>364,719</b>	<b>30.3</b>	<b>80,680</b>	<b>26.7</b>	<b>24,132</b>	<b>21.9</b>
<b>Ginnie Mae</b>	1,191,979	17.3	244,573	20.3	59,455	19.7	30,308	27.6
<b>Not sold in 2016 CY</b>	1,346,756	19.5	283,722	23.5	74,531	24.7	24,926	22.7
<b>Other</b>	1,932,929	28.0	311,900	25.9	87,058	28.8	30,643	27.9
<b>Total</b>	<b>6,899,169</b>		<b>1,204,914</b>		<b>301,724</b>		<b>110,009</b>	

Source: Center for Responsible Lending analysis of 2016 HMDA data

FHA continues to play an outsized role among borrowers of color in rural areas. Nationally, FHA loans backed by Ginnie Mae make up 21.6 percent of lending to borrowers of color, and 33.9 percent of lending to African American borrowers of any ethnicity. For many borrowers, FHA lending backed by Ginnie Mae is an important source of credit in both urban and rural areas, especially to first-time borrowers, low- and moderate-income borrowers, and borrowers of color. These loans are often more expensive than conventional lending, however. Further review of pricing considerations for both FHA and conventional lending is necessary to ensure that mortgage credit is available on the best possible terms to low- and moderate-income borrowers and borrowers of color.

**Figure 8. GSE and Ginnie Mae market share to selected borrowers in rural areas**



Source: Center for Responsible Lending analysis of 2016 HMDA data

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### Community Banks Depend on GSE Loan Purchases to Support Access to Credit in Rural Areas

The GSEs provide a critical source of mortgage capital for community banks. In 2016, the GSEs purchased 100,151 purchase and refinance loans from community banks lending in rural areas, or 26.8 percent of the community bank market in rural areas. Ginnie Mae guaranteed 9,119 purchase and refinance loans made by community banks in rural areas that same year—just a 2.4 percent market share (Figure 9).

**Figure 9. Community bank loans in rural areas by purchaser of loan in 2016**

	Purchase		Refinance		Total	
	#	%	#	%	#	%
<b>GSEs</b>	50,334	24.6%	49,817	29.6%	100,151	26.8%
Ginnie Mae	7,450	3.6%	1,669	1.0%	9,119	2.4%
Not sold in 2016 CY	78,691	38.4%	79,975	47.4%	158,666	42.5%
Other	68,252	33.3%	37,123	22.0%	105,375	28.2%
<b>Total</b>	<b>204,727</b>		<b>168,584</b>		<b>373,311</b>	

Source: Center for Responsible Lending analysis of 2016 HMDA data

## Impact of Possible Changes to the Federal Housing Finance System, Including the GSEs

As shown by the above data, the GSEs play a key role in providing financing for rural home lending. Community banks, credit unions and other small lenders play a critical role in providing mortgages and other financial services on a local basis to American families, and they must be supported by the housing finance system. The current system has many provisions to do this, and these should be continued and expanded in both the current system and any modifications to that system. However, some housing finance proposals would strongly tilt the system against smaller financial institutions.

Community banks, credit unions, and other small financial institutions deliver mortgages to their customers, along with other essential financial services, in the communities where they are located. As has been noted by many, these institutions have a different business model than larger institutions, often serving local markets and having close relationships with their customers. In rural areas, these institutions play a particularly important role. As discussed above, in many rural communities, community banks and credit unions are the only financial institutions providing retail branches and services in the community. These institutions also focus on traditional banking services and do not engage in many of the complex lines of business that larger institutions do, such as securities issuance, credit default swaps, or proprietary trading.<sup>14</sup> Disruptions to the traditional banking services, such as mortgages, cannot be offset with other products and lines of service. As a result, stress on community banks and their mortgage lending would be felt in other lending channels. For example, community banks provide almost half of small business lending, and that is dependent on the overall sustainability of the institutions.

The GSEs provide a number of features that are essential for community banks. First is the GSEs' cash window, which provides lenders the option of selling individual loans. This means that smaller institutions do not have to trade their loans for securities or sell their loans to other large banks. Although many larger lenders trade their loans for GSE securities, this is difficult for small lenders. The securities carry the interest rate risk of the underlying loans and, as a result, can change substantially in value if market interest rates change. An increase in market interest rates would significantly reduce the value of the securities and create a loss for the bank holding the security. Larger institutions can purchase interest rate swaps to hedge this risk, but this is much harder for small lenders to do.

Another advantage of the current cash window is that the GSEs purchase these loans without requiring the transfer of the servicing of the loans to a third party. This enables the community banks and credit unions to continue the relationship with the customer during the life of the loan rather than having the loan serviced by a third party or even a competitor. Private loan purchasers and aggregators often require the seller to transfer the loan servicing to the purchaser. There is also evidence that keeping loan servicing in the hands of community-based financial institutions results in better consumer outcomes in terms of customer service and loan performance.<sup>15</sup>

The current cash window also provides comparable pricing to trading for securities. This is critical, as options such as the cash window are viable only if the pricing is at a level that permits community banks to be competitive in the mortgage market. Overall, the mortgage market favors larger lenders and larger transactions, particularly for securities. Sales of large pools of loans are more attractive to buyers of the loans and buyers of the securities backed by the loans. Absent safeguards, large lenders can leverage the government support to use these structural advantages to squeeze community banks and other small lenders out of the market. These important features of the cash window option, which are not available for FHA loans, are a reason that the FHA program, while vitally important, is not a substitute for community banks having access to conventional lending for their full spectrum of customers.

Given the importance of these provisions in the current housing finance system, they should be continued and expanded. However, some of the proposals for housing reform have provisions that would tilt the government supported mortgage market heavily against community banks. While most options preserve some form of a cash window, they do not have the supporting protections that make it workable. Most important is pricing parity with the securities option. If securities trade at a better price, it greatly diminishes the value of the cash window. This is true even if there is a provision that prohibits volume pricing or discounts. If all cash transactions are disfavored to securities, the lack of discounts in either market are of little consolation to community banks, which are disproportionately dependent on the cash window transactions. To provide this pricing parity, the guarantor/issuer must have the ability to pool costs across the market. This makes it essential that guarantor/issuers serve a national market and have a duty to equitably serve all lenders. Otherwise, if some guarantors/issuers can choose to cream the market, serving only the large lenders and the most lucrative markets, the remaining guarantors will not have sufficient loans from the full market to be able to provide pricing parity to small lenders and still compete in the overall market. In order to provide this parity, the guarantor/issuers also must be able to pool the credit risk that they hold and reinsure. If all but the catastrophic credit risk is transferred before the loans are purchased by the guarantor/issuers – such as through deep upfront mortgage insurance proposals – there is insufficient revenue remaining for the guarantors/issuers to pool the costs and provide viable pricing to small lenders. In addition, if substantially all of the credit risk is sold and priced before the loans are acquired by the guarantor/issuer, then these other parties control the access and pricing and they will favor the larger lender transactions, which will be more profitable.

Provisions for a small lender security or issuer are offered in some plans to address this problem, but they are inadequate. Securities resulting from small groups of loans from many lenders will be measurably more expensive to assemble. They would also still lack the size to create enough loans to provide the large volume of securities for the economies of scale and liquidity that investors in securities desire, and this would also reduce the price community banks received for the mortgages.

Other aspects of the mortgage market already have headwinds for community lenders. Many components of the production of mortgages favor large lenders due to their market size. These larger

lenders can demand lower prices for many of the third-party services provided to lenders and overall, they have the advantage of economies of scale over smaller lenders. These conditions make it all the more important that the structure of the housing finance system work to provide a level playing field and not contribute to the squeezing out of community bank mortgage lending.

## Duty to Serve Provisions Provide Important Mandate to Support Lending in Rural Areas

Although the GSEs have a national duty to serve mandate, the Housing and Economic Recovery Act of 2008 further requires the GSEs to focus on facilitating a secondary market in three particular underserved markets: manufactured housing, affordable housing preservation, and rural housing.<sup>16</sup>

Fannie Mae and Freddie Mac must submit a comprehensive three-year plan to FHFA that addresses the challenges in the three underserved markets. The statute requires FHFA to annually evaluate and rate each Enterprise's compliance with their Duty to Serve requirements and to report annually to Congress on FHFA's evaluations. The final rule provides for specific activities that the GSEs may discretionarily undertake to be eligible to receive Duty to Serve credit, and provides that the GSEs may propose additional activities.<sup>17</sup>

For the rural market, the enumerated regulatory activities include supporting housing in high-needs rural regions (Middle Appalachia, the Lower Mississippi Delta, colonias, and rural tracts in persistent poverty counties); supporting housing for high-needs rural populations (Native Americans in Indian areas, agricultural workers); and supporting financing by small financial institutions of rural lending.<sup>18</sup> Additionally, as a large amount of manufactured housing stock is located in rural areas, GSE activities related to manufactured housing will have an enormous impact on the rural housing market. Rural residents are much more likely to live in manufactured housing with nearly two-thirds of all manufactured housing located in rural areas – much of it rental housing.<sup>19</sup>

Through their Duty to Serve plans, the GSEs have pledged to increase capacity for rural lending and manufactured housing.<sup>20</sup> The GSEs' plan objectives include actions such as increased loan purchases, providing homebuyer education and technical training, outreach, designing pilot programs, expanding partnerships with community-based organizations and CDFIs, new product offerings, and research. The plans are also required to include measurable objectives stating how the GSEs will accomplish the activities. The Duty to Serve plans become effective January 2018 and cover a three-year cycle. Stakeholders must continue to monitor the GSEs' progress and actively engage by commenting on the GSEs' plans when they come up for public comment.

The increased and legally-required focus on the rural and manufactured housing markets is a positive step forward. However, whether this translates to increased rural lending will be determined through the strength of the GSEs' plans – particularly with respect to loan purchases – and FHFA's commitment to ensuring a robust evaluation process. Purchasing loans to facilitate homeownership is the main function of the GSEs. Of all the activities the GSEs undertake, it is of utmost importance that the GSEs' plans catalyze more loan purchases to strengthen lending to underserved rural communities.



# Conclusion

Rural mortgage lending today has rebounded well from the financial crisis, and community banks and the GSEs have played a critical role in this recovery. Community banks depend heavily on mortgage financing from the GSEs, and in turn these banks provide a broad array of financial services in rural areas where there are often few other available institutions. Proposed changes to the housing finance system could substantially reduce the ability of community banks to effectively access mortgage funding and serve consumers in rural communities. Thus, any reform must maintain the key features essential to providing community banks the means to compete effectively.

## TABLE AND FIGURES

### Appendix A. Top ten states by rural population by percent rural population

State	Rural population (#)	Total population (#)	People of color in rural areas (#)	Rural population (%)	People of color in rural areas (%)
Vermont	487,265	626,604	24,817	77.8%	5.1%
Wyoming	432,073	579,679	62,319	74.5%	14.4%
Montana	720,137	1,014,699	94,105	71.0%	13.1%
Mississippi	1,995,455	2,988,081	830,005	66.8%	41.6%
South Dakota	543,786	843,190	92,575	64.5%	17.0%
Maine	835,741	1,329,100	37,871	62.9%	4.5%
North Dakota	424,060	721,640	58,853	58.8%	13.9%
Kentucky	2,449,747	4,397,353	196,634	55.7%	8.0%
West Virginia	1,031,022	1,851,420	50,347	55.7%	4.9%
Iowa	1,652,266	3,093,526	132,847	53.4%	8.0%
<b>Total</b>	<b>73,883,503</b>	<b>316,515,021</b>	<b>15,453,802</b>	<b>23.3%</b>	<b>20.9%</b>

Source: Total Population; U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates

## Appendix B. Rural purchase and refinance lending in rural areas

Rank	State	Rural (#)	Rural (%)	Urban (#)	Urban (%)	Total
1	Texas	73,884	14.5%	437,045	85.5%	510,929
2	California	65,986	6.8%	908,401	93.2%	974,387
3	Ohio	51,978	22.9%	175,441	77.1%	227,419
4	North Carolina	51,193	23.1%	170,364	76.9%	221,557
5	Wisconsin	48,732	35.6%	88,282	64.4%	137,014
6	Michigan	48,090	21.7%	173,594	78.3%	221,684
7	Indiana	42,549	29.1%	103,720	70.9%	146,269
8	Tennessee	41,763	28.9%	102,504	71.1%	144,267
9	Georgia	39,444	17.6%	184,409	82.4%	223,853
10	Virginia	38,430	18.0%	174,536	82.0%	212,966
11	Minnesota	38,414	26.1%	108,537	73.9%	146,951
12	Missouri	37,996	27.8%	98,813	72.2%	136,809
13	Colorado	35,607	15.9%	187,941	84.1%	223,548
14	Pennsylvania	34,522	15.9%	182,238	84.1%	216,760
15	Kentucky	34,199	41.6%	48,033	58.4%	82,232
16	Illinois	31,590	11.6%	239,769	88.4%	271,359
17	Alabama	30,382	34.5%	57,671	65.5%	88,053
18	Washington	30,299	13.6%	192,776	86.4%	223,075
19	Oregon	28,769	25.5%	84,108	74.5%	112,877
20	New York	28,412	14.6%	165,842	85.4%	194,254
21	Iowa	27,880	40.1%	41,660	59.9%	69,540
22	Oklahoma	23,321	38.0%	38,074	62.0%	61,395
23	Mississippi	21,622	55.2%	17,529	44.8%	39,151
24	Florida	21,523	5.2%	390,395	94.8%	411,918
25	South Carolina	21,507	19.6%	87,993	80.4%	109,500
26	Arkansas	20,529	41.7%	28,709	58.3%	49,238
27	Arizona	18,271	9.0%	183,773	91.0%	202,044
28	Kansas	17,913	32.1%	37,958	67.9%	55,871
29	Louisiana	17,132	22.9%	57,635	77.1%	74,767
30	Idaho	16,371	33.3%	32,804	66.7%	49,175
31	Utah	14,631	14.2%	88,685	85.8%	103,316
32	Montana	14,242	66.7%	7,098	33.3%	21,340

### Appendix B. Rural purchase and refinance lending in rural areas (cont.)

Rank	State	Rural (#)	Rural (%)	Urban (#)	Urban (%)	Total
33	Maine	13,123	52.4%	11,927	47.6%	25,050
34	Nebraska	12,309	29.8%	28,934	70.2%	41,243
35	New Hampshire	10,782	34.2%	20,778	65.8%	31,560
36	Maryland	10,486	7.1%	137,532	92.9%	148,018
37	West Virginia	10,479	43.5%	13,583	56.5%	24,062
38	New Mexico	9,176	27.4%	24,309	72.6%	33,485
39	Nevada	8,809	10.5%	74,856	89.5%	83,665
40	Wyoming	8,302	66.3%	4,229	33.7%	12,531
41	South Dakota	7,609	44.1%	9,649	55.9%	17,258
42	North Dakota	7,420	48.4%	7,909	51.6%	15,329
43	Vermont	7,341	68.5%	3,375	31.5%	10,716
44	Alaska	6,605	44.5%	8,223	55.5%	14,828
45	Delaware	5,800	27.1%	15,591	72.9%	21,391
46	Connecticut	5,433	8.5%	58,300	91.5%	63,733
47	Hawaii	5,186	21.2%	19,227	78.8%	24,413
48	Massachusetts	4,290	2.7%	155,687	97.3%	159,977
49	New Jersey	3,839	2.3%	159,809	97.7%	163,648
50	Rhode Island	744	3.5%	20,485	96.5%	21,229
51	District of Columbia	0	0.0%	15,379	100.0%	15,379
	No state information	0	0.0%	8,136	100.0%	8,136
	<b>Total</b>	<b>1,204,914</b>		<b>5,694,255</b>		<b>6,899,169</b>

Source: Center for Responsible Lending analysis of 2016 HMDA data

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## ENDNOTES

- <sup>1</sup> “Community Banking Study.” Washington, DC: Federal Deposit Insurance Corporation, December 2012. <https://www.fdic.gov/regulations/resources/cbi/report/cbi-full.pdf>. Page 3-5.
- <sup>2</sup> *Ibid.*
- <sup>3</sup> *Ibid.*
- <sup>4</sup> “Community Banking Study.” 5-2 and 5-4. The FDIC defines a mortgage lending specialist as a financial institution that holds residential mortgage loans greater than 30 percent of total assets.
- <sup>5</sup> “Community Banking Study.” 5-3.
- <sup>6</sup> Ensign, Rachel Louise, and Coulter Jones. “How Bank of America Ditched 1,597 Branches Across the U.S.” *Wall Street Journal*, September 17, 2017, sec. Markets. <https://www.wsj.com/articles/how-bank-of-america-ditched-1-597-branches-across-the-u-s-1505646000>.
- <sup>7</sup> 12 U.S.C. § 4565; “Duty to Serve Evaluation Guidance 2018-2020 Plan Cycle.” Washington, DC: Federal Housing Finance Agency, 2017. <https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/Final-Evaluation-Guidance-DTS-Program.pdf>.
- <sup>8</sup> The rule defines “rural area” as either a census tract outside of a metropolitan statistical area (MSA), as designated by the Office of Management and Budget; or a census tract in a MSA that is outside of the MSA’s Urbanized Area as designated by the U.S. Department of Agriculture’s Rural-Urban Commuting Area Code #1, and outside of tracts with a housing density of over 64 housing units per square mile for USDA’s RUCA Code #2. For more information on how Rural-Urban Commuting Area Code are defined see “USDA ERS - Rural-Urban Commuting Area Codes.” Accessed October 30, 2017. <https://www.ers.usda.gov/data-products/rural-urban-commuting-area-codes.aspx>. The FHFA released data on census tracts that met this test in 2016 and again in 2017. Duty to Serve data was accessed October 30, 2017 at <https://www.fhfa.gov/DataTools/Downloads/Pages/Duty-to-Serve-Data.aspx>.
- <sup>9</sup> 12 U.S.C. 2801 *et seq.*
- <sup>10</sup> Affiliated lenders not associated with a bank or credit union were determined using the “other lender” field in the 2016 HMDA Reporter Panel.
- <sup>11</sup> Source: Total Population; U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates.
- <sup>12</sup> 12 C.F.R. § 345.12.
- <sup>13</sup> Defined as a lender that originated at least one loan in a rural area.
- <sup>14</sup> These distinctions have been recognized by the CFPB, which created a number of special provisions for these lenders in the mortgage regulations, exempting smaller lenders from many requirements and providing additional flexibility for underwriting and servicing of loans.
- <sup>15</sup> “Mortgage Servicing: Community Lenders Remain Active under New Rules, but CFPB Needs More Complete Plans for Reviewing Rules.” Government Accountability Office, June 2016. <http://www.gao.gov/assets/680/677995.pdf>.
- <sup>16</sup> Housing and Economic Recovery Act of 2008, P. Law 110-289, Section 1229(a)(1); 12 U.S.C. § 4565.
- <sup>17</sup> 12 C.F.R. Part 1282, Subpart C.
- <sup>18</sup> 12 C.F.R. § 1282.35.
- <sup>19</sup> “Introduction of the Duty to Serve Underserved Markets Plan for the Manufactured Housing, Affordable Housing Preservation, and Rural Housing Markets.” Washington, DC: Fannie Mae, 2017. [https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/Fannie-Mae\\_Final-UMP.pdf](https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/Fannie-Mae_Final-UMP.pdf). Page RH5.
- <sup>20</sup> *Ibid.* “Freddie Mac Duty to Serve Underserved Markets Plan.” Washington, DC: Freddie Mac, 2017. [https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/Freddie-Mac\\_Final-UMP.pdf](https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/Freddie-Mac_Final-UMP.pdf).



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