

Efforts have been made to overcome housing finance difficulties in rural areas. For example, the Farm Credit System, Farmer Mac, and Fannie Mae recently created a conduit to provide affordable loans to residents of rural communities with populations under 2,500.<sup>52</sup> The underwriting provisions of the program accommodate the unique features of rural housing, such as large lot sizes and few comparable sales for appraisal. In 1994, Fannie Mae established new, more flexible, underwriting guidelines for rural areas. These changes in the industry could contribute to increased secondary market activity and account for the increase in the proportion of Fannie Mae's business in rural areas. In 1994, Fannie Mae's purchases in rural areas increased to 9.3 percent of its total business, compared to 8.3 percent in 1993. Rural areas accounted for about 12.5 percent of Freddie Mac's business in both 1993 and 1994.

#### c. HUD's Definition of Underserved Counties

The Secretary has determined that in nonmetropolitan areas "underserved

areas" are defined as counties where: minorities comprise 30 percent or more of the residents and the median income of families does not exceed 120 percent of the state nonmetropolitan median income; or the median income of families does not exceed 95 percent of the greater of the state nonmetropolitan median income or the nationwide nonmetropolitan median income. Comparing county median income to state nonmetropolitan median income ensures that poor counties in high-income states are included as underserved rural areas and comparing county median income to national nonmetropolitan median income ensures that poor counties in poor states are included as underserved rural areas.

Table B.5 compares the final rule's definition with Freddie Mac's and Fannie Mae's definitions of rural underserved areas as well as with a 90/30 definition that is analogous to HUD's metropolitan underserved areas definition.<sup>53</sup> HUD, however, chose the broader 95/30 definition for rural areas because the 90/30 definition did not

include a significant number of persistent poverty counties.<sup>54</sup>

The final rule's definition of rural underserved areas balances the competing priorities of a targeted definition that provides greater mortgage opportunities to counties experiencing the worst problems and of a broad definition that encourages the GSEs to provide a secondary market infrastructure that encourages mortgage lending in all nonmetropolitan areas. The final rule's definition covers 54 percent of the nonmetropolitan population, 67 percent of poor persons, and 75 percent of the minority population.<sup>55</sup> The counties included have poverty rates (21 percent) and minority percentages (21 percent) well above the average poverty rate (17 percent) and minority percentage (15 percent) for all nonmetropolitan areas. Thus, HUD's definition encompasses 66 percent of all nonmetropolitan counties, including the most distressed nonmetropolitan counties.

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<sup>52</sup> Conduits provide assistance to smaller lenders so that they have access to secondary market funds. Moreover, conduits can provide guarantees and recourse to secondary market investors that low volume lenders cannot provide.

<sup>53</sup> Freddie Mac's definition includes counties as underserved if county median income does not exceed state nonmetropolitan median income or minority composition exceeds 20 percent. Fannie Mae's underserved definition includes all nonmetropolitan counties.

<sup>54</sup> A county experiences persistent poverty if its poverty rate is at least 20 percent over the last 3 decades.

<sup>55</sup> The 54 percent coverage rate in nonmetropolitan areas is similar to the 58 percent coverage rate in central cities.