4. Rural Underserved Areas

Recognizing both the difficulty of defining rural underserved areas and the need to encourage GSE activity in such areas, HUD has chosen a rather broad, county-based definition of underservedness in rural areas. Its definition includes 1.511 of the 2.305 counties in nonmetropolitan areas and covers 54 percent of the nonmetropolitan population. Still, HUD's definition targets the most disadvantaged rural counties. It covers 67 percent of the nonmetropolitan poor and 75 percent of nonmetropolitan minorities. The average poverty rate of underserved counties is 21 percent, significantly greater than the 12 percent poverty rate in counties designated as 'served".

The HUD definition also targets specific geographic areas with high

poverty and minority concentrations. For example, HUD's definition includes 84 percent of the population that reside in remote counties that are not adjacent to metropolitan areas and have fewer than 2,500 residents in towns.

5. GSE Activity in Underserved Areas

Figure B.2 uses 1993 and 1994 HMDA data for single-family mortgages to compare GSE and non-GSE funding in underserved areas. The non-GSE part of the conventional conforming market consists mainly of bank and thrift portfolio lenders. The share of funding going to underserved areas increased between 1993 and 1994 for both GSEs and non-GSEs. A larger proportion of non-GSE mortgages finance properties in underserved areas than do mortgages purchased by the GSEs. This was particularly the case for Freddie Mac in 1994—22 percent of Freddie Mac's

single-family business was in underserved areas, compared with 27 percent of non-GSE business.⁶⁸

In terms of overall business, 29 percent of Fannie Mae's 1994 business was in underserved areas as was 24 percent of Freddie Mac's. The fact that underserved areas have much lower incomes than other areas does not mean that GSE purchase activity in underserved areas derives totally from lower income families. In 1993, abovemedian income households accounted for 48 percent of the mortgages that the GSEs purchased in underserved areas and in 1994, they accounted for 37 percent. This suggests these areas are quite diverse.

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 $^{^{68}\}mbox{The HMDA}$ data has been adjusted for 100,000 mobile homes along the lines discussed in Appendix D.