

it loses much of its distinctive urban character.⁸⁵

Rural Areas

Determining how to define "rural areas" within the context of this goal is even more difficult than the complex analyses of HMDA and Census data for cities and suburbs summarized in Appendix B. This occurs for three interrelated reasons: (1) The general lack of accurate data on mortgage flows and credit activity outside metropolitan statistical areas (MSAs), (2) the scarcity of careful current studies on access to mortgage credit in rural locations, and (3) the existence of a variety of statutory and statistical definitions for "rural."

To address the many issues pertinent to developing an appropriate and workable definition of "rural areas" for purposes of this rule, the Department has consulted with rural demographers and economists at the Department of Agriculture's Economic Research Service, the Census Bureau, the Farmers Home Administration, and the Housing Assistance Council. All of these issues were also discussed at a forum attended by researchers from academia, the Department of Agriculture, the Census Bureau, the Housing Assistance Council, the Congressional Budget Office, public-interest groups, and the GSEs. The Secretary's decisions about defining "rural areas" are based on these consultations as well as ongoing analyses of data from the 1990 Census, the American Housing Survey, and the Residential Finance Survey.

Framework for Defining Rural Areas

In considering the issue of how to define rural areas for the central cities, rural areas, and other underserved areas goal, the Department analyzed available data and research on mortgage flows and credit access in rural locations, consulted with rural demographers and economists at government agencies and elsewhere, and considered the multiple existing definitions of "rural" currently in use. Based on the evidence that income and housing needs vary as greatly between nonmetropolitan counties and block numbering areas⁸⁶ as they do within MSAs, the Secretary has determined that the basic definition of "underserved areas" developed above—as areas with high minority shares or low median family income—

⁸⁵ Testimony before the Committee on Banking, Finance, and Urban Affairs, Subcommittee on General Oversight, Investigations, and the Resolution of Failed Financial Institutions, U.S. House of Representatives, at 17 (April 20, 1994).

⁸⁶ For data collection in the 1990 Census, block numbering areas (BNAs) are the non-metropolitan equivalent of census tracts—subareas of counties that contain approximately 4,000 people.

should also apply in rural areas, that is, outside of MSAs. The Secretary has determined that for purposes of this housing goal that "rural areas" are the underserved areas in nonmetropolitan counties, *i.e.*, outside of Metropolitan Statistical Areas.

The Secretary seeks comments on whether the appropriate unit of geographic focus for defining underserved areas in non-MSAs is the county or the Block Numbering Area (the rural equivalent of census tracts). In addition, the Secretary seeks comment on whether this definition of rural should be expanded by including indicators of access to metropolitan areas and/or indicators of jurisdictional size (*i.e.*, include small communities of less than 2,500 people). The following section summarizes the factors the Secretary considered in determining this proposed definition of rural and closes with questions on which the Secretary solicits comments about the proposed definition.

(1) *Unavailability of accurate data on mortgage flows and credit activity in rural locations.* HMDA data, the source used for most of the studies of credit needs summarized in Appendix B, does not provide information on mortgage activity outside of metropolitan statistical areas (MSAs), and within MSAs census tracts may contain both rural and urban segments.⁸⁷ Other sources of mortgage flow information, like the Federal Reserve Call Reports, do not detail locations of loans.

(2) *Studies of access to mortgage credit.* Researchers participating in the Department's forum agreed that available studies do not show that rural areas endemically have problems with access to credit, although this (lack of) conclusion may stem from data unavailability. A 1990 study by the Urban Institute, for example, found little evidence of a national rural home credit shortage, and attributed low mortgage activity in some local markets to lack of demand in weak local economies.⁸⁸ Yet abundant anecdotal evidence exists that underserved areas in rural communities require a special focus by the GSEs, to redress years of historic neglect by the mortgage market. According to the Housing Assistance Council, access to mortgage credit appears worse as distance from metropolitan centers

⁸⁷ Only lending institutions with offices in metropolitan statistical areas (MSAs) report mortgage origination data under HMDA. 12 U.S.C. 2803(a)(1).

⁸⁸ The Urban Institute, *The Availability and Use of Mortgage Credit in Rural Areas* (1990), examined data on ownership, mortgage terms and conditions, and Federal program coverage, particularly for moderate-income home buyers.

increases,⁸⁹ while Department of Agriculture representatives judge that communities with population below 2,500 or 5,000 are more likely than other rural communities to lack access to credit. More generally, the forum participants agreed that, as found for central cities, rural communities with low income and minority concentrations were those more likely to be underserved by the mortgage markets.

A report by the Economic Research Service of the Department of Agriculture shows that urban proximity is important: economic conditions and housing problems tend to be worse in counties most remote from metropolitan areas or smaller cities.⁹⁰ In particular, counties with "persistent low-income," which are disproportionately more rural and remote, have had little recent economic activity, stagnation in real family income during the 1980s, and continue to have the highest incidence of housing lacking complete plumbing. These high poverty counties are concentrated in Appalachia and in areas with high proportions of minority residents.

(3) *Current Definitions of Rural.* In considering a workable definition of "rural areas," the Secretary focused on three major definitions in use: (i) The Census Bureau's official designation; (ii) the Farmer's Home Administration's designation for several of its programs; and (iii) the designation of "non-metropolitan." In this proposed rule, rural areas are defined as "underserved areas" "located outside of any Metropolitan Statistical Area designated by the Office of Management and Budget." The reasons for choosing to focus on non-metropolitan areas are described below:

(a) *Census Bureau definition.* The Census Bureau bases its definition of rural on population size and density.⁹¹ Locations that meet the rural definition are designated once per decade, based on decennial Census results. There are two major disadvantages of using the Census Bureau definition as part of a definition of rural areas for this goal. First, few relevant intercensal data

⁸⁹ Statement of Moises Loza, Executive Director of the Housing Assistance Council (HAC), July 21, 1994, to the Subcommittee on Environment, Credit, and Community Development of the House Committee on Agriculture.

⁹⁰ *Rural Conditions and Trends*, Vol. 4, No. 3 (Fall 1993), a special 1990 census issue, documents differences between counties in population, education, employment, income, poverty, and housing.

⁹¹ See U.S. Bureau of the Census, *1990 Census of Population and Housing: Guide, Part B. Glossary*, 16-17 (1993) (hereinafter cited as "Census Glossary").