

g. Identifying Underserved Locations in Rural Areas

Evaluating which rural locations are underserved in terms of access to mortgage credit cannot be done with HMDA data, the source used for most of the studies of credit needs summarized here, because these data do not provide geographic identifiers on mortgage activity outside of metropolitan statistical areas. Moreover, there are few careful current studies on access to mortgage credit in rural locations. 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.³²

To address issues about defining underserved areas in rural contexts, the Department consulted with researchers from academia, the Department of Agriculture, the Census Bureau, the Housing Assistance Council, the Congressional Budget Office, public-interest groups, and the GSEs. Researchers participating in a forum on these issues agreed that available studies do *not* show that rural areas have endemic problems with access to credit, although this conclusion may stem from lack of adequate data. Yet there is much anecdotal evidence that underserved areas in rural communities have less access to credit and particularly to the secondary market. According to the Housing Assistance Council (HAC), access to mortgage credit worsens as distance from metropolitan centers increases,³³ while Department of Agriculture representatives judge that communities with population below 2,500 or 5,000 most often lack access to lenders. In general, the forum participants agreed that, as found for cities and suburbs, rural communities with low income or minority concentrations were those more likely to be underserved.

3. Conclusions From HUD's Analysis and the Economics Literature About Underserved Areas

The implications of studies by HUD and others for defining underserved areas can be summarized briefly. First, the existence of large geographic disparities in mortgage credit is well documented. HUD's analysis of 1993 HMDA data shows that low-income and minority neighborhoods receive substantially less credit than other neighborhoods and, by most reasonable criteria, fit the definition of being underserved by the nation's credit markets.

Second, researchers are beginning to test models that more fully account for the various risk, demand, and supply factors that determine the flow of credit to urban neighborhoods. The studies by Holmes and Horvitz and Schill and Wachter are good examples of this recent research. Their attempts to test the redlining hypothesis

show the analytical insights that can be gained by more rigorous modeling of this issue. However, as those two studies show, the fact that our urban areas are highly segregated means that the various loan, applicant, and neighborhood characteristics currently being used to explain credit flows are often highly correlated with each other which makes it difficult to reach definitive conclusions about the relative importance of any single variable such as neighborhood racial composition. Thus, the need continues for further research on the underlying determinants of geographic disparities in mortgage lending.³⁴

Finally, the research strongly supports a targeted definition of underserved areas. Studies by Shear, *et al.* and Avery, Beeson, and Sniderman conclude that characteristics of both the applicant and the neighborhood where the property is located are the major determinants of mortgage denials and origination rates—once these characteristics are controlled for, other influences such as central city location play only a minor role in explaining disparities in mortgage lending. HUD's analysis shows that both credit and socioeconomic problems are highly concentrated in underserved areas within central cities and suburbs. The remaining, high-income portions of central cities and suburbs appear to be well served by the mortgage market.

C. Consideration of the Factors

As the above review shows, the most thorough studies available provide strong evidence that in metropolitan areas low income and minority composition identify neighborhoods that are underserved by the mortgage market. Experts on rural housing concur that these dimensions also influence credit availability in rural and non-metropolitan areas. As this section discusses, geographical differentials in housing, social, and economic problems and past discrimination against minorities confirm that problems are greater throughout the nation in the areas identified as underserved under the Secretary's proposed definition. Section C.1. describes housing needs in urban and rural areas generally, after which the extreme social and economic problems of distressed neighborhoods are noted. Section C.2. discusses discrimination and other housing problems faced by minorities. Although few studies have yet analyzed the specific geographic areas targeted by the proposed definition, the segregation of minorities within the nation's inner cities and poorer rural counties makes this information pertinent to analysis of underserved areas and to the goal set by the Secretary.

1. Housing Needs in Urban and Rural Areas

a. Regional and Urban/Rural Differences in Housing Needs

The incidence of housing problems and severe housing problems varies markedly by

location. At almost every income level in 1990, both renters and owners were most likely to have housing problems in the West, and residents of central cities more often had problems than those in suburbs or outside metropolitan areas.³⁵ In each type of location, affordability problems were most common. Although households in non-metropolitan areas, for example, were less likely than those in cities or suburbs to pay more than 30 percent of income for housing in 1991, affordability problems (25 percent) were still much more common for them than physically inadequate housing (10 percent). Three-quarters of non-metropolitan housing units are in the South and the Midwest. These households have a relatively high incidence of substandard housing, but affordability is less of a problem than elsewhere in the nation. Housing conditions are worst in the South, where over one-fourth of non-metropolitan units have some type of physical deficiency.

Very low-income renters similarly were more likely to have worst case problems in the West and Northeast than in the Midwest and South. Nationally, over half of worst case households lived in central cities, while a third lived in the suburbs.³⁶ In all four regions, renters living outside of metropolitan areas least often had worst case problems.

Although "non-metropolitan," as defined by OMB is often considered equivalent to "rural," as defined by the Census Bureau, almost half of rural households live in metropolitan areas. Moreover, over one-third of non-metropolitan households live in communities the Census Bureau classifies as urban. Thus, any discussion of rural and urban housing needs must define terms carefully. Analysis of 1991 American Housing Survey data reveals that rural households in metropolitan areas actually have higher ownership rates and fewer housing problems than either urban or rural residents of non-metropolitan areas. Furthermore, in non-metropolitan counties, housing problems are more frequent and more often severe, for urban than for rural residents.

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.³⁷ 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

³²The Urban Institute, 1990. *The Availability and Use of Mortgage Credit in Rural Areas* examined data on ownership, mortgage terms and conditions, and Federal program coverage, particularly for moderate-income homebuyers.

³³Statement of Moises Loza, Executive Director of HAC, July 21, 1994, to the Subcommittee on Environment, Credit, and Community Development of the House Committee on Agriculture.

³⁴Methodological and econometric challenges that researchers will have to deal with are discussed in Mitchell Rachlis and Anthony Yezer, "Serious Flaws in Statistical Tests for Discrimination in Mortgage Markets," *Journal of Housing Research*, Volume 4, 1993, pp. 315-336.

³⁵Amy Bogdon, Joshua Silver, and Margery A. Turner, *National Analysis of Housing Affordability, Adequacy, and Availability: A Framework for Local Housing Strategies*, HUD-1448-PDR, 1994.

³⁶U.S. Dept. of Housing and Urban Development, 1992. *The Location of Worst Case Needs in the Late 1980s: A Report to Congress*. HUD-1387-PDR.

³⁷*Rural Conditions and Trends*, Volume 4, No. 3, Fall 1993, a special 1990 census issue, documents differences among counties in population, education, employment, income, poverty, and housing.